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SHARIA BANKING PERFORMANCE IN MAKASSAR

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Abstract

This study aims to analyze the performance of Islamic banking in Makassar. Data collected using questionnaires which was distributed to seven Islamic banks. Supporting data obtained from Bank Indonesia, representatives Makassar and Bank Indonesia's website. Data then were analyzed using financial ratios, particularly Non Performing Financing (NPF) and Financing to Deposit Ratio (FDR). The results showed that NPF was 1.49% and FDR reached 201.67%. The first ratio indicates low financing problems, while the second shows a high ratio financing provided to society. Furthermore, Islamic principles applied in the system, mechanism, and products offered by the Islamic banking is such a value-added for the societies, which is not found in the conventional ones. The high financial performance of Islamic banking outperforms its counterparts shows significant potential to grow rapidly in the future.

Penelitian ini bertujuan menganalisis kinerja perbankan syariah di Makassar. Teknik pengumpulan data menggunakan kuisioner yang dibagikan kepada tujuh bank syariah. Data pendukung diperoleh dari Bank Indonesia perwakilan Makassar dan website Bank Indonesia. Teknik analisis data menggunakan analisis rasio keuangan, terutama Non Performing Financing (NPF) dan Finanicng to Deposit Ratio (FDR) perbankan syariah secara agregat. Hasil penelitian menunjukkan NPFperbankan syariah di Makassar secara agregat sebesar 1,49% dan FDR sebesar 201,67%. Rasio pertama menunjukkan rendahnya pembiayaan bermasalah, sedangkan rasio kedua menunjukkan tingginya pembiayaan yang diberikan kepada masyarakat. Lebih jauh, penerapan prinsip syariah dalam sistem, mekanisme, dan produk perbankan syariah menjadi nilai tambah bagi masyarakat. Hal ini tidak ditemukan dalam perbankan konvensional. Dengan kinerja keuangan yang kompetitif, maka perbankan syariah memiliki potensi untuk berkembang pesat di masa yang akan datang.

Keywords: Islamic banking, financial performance, NPF, FDR

A. Introduction

The milestone in the history of Islamic banking began when the Bank Muamalat Indonesia was established in 1992 as the first Islamic principles-based Indonesia, i.e. therevenue sharing principle.[1]Since that, Indonesian banks operated 'dual banking system', which allowed conventional banks to implement sharia business unit. The development of Islamic banking showed a positive signal with the support of Bank Indonesia and the Ministry of Finance by regulating Islamic financial acts, such as the Law BI No. 23/1999 and Law No. BI 3/2004 and Law No. 21/2008 on Islamic Banking. Theseacts provide more space for the growth of the sharia banking and financial institutions. Currently, there are 11 Islamic Banks (BUS), 24 Sharia Business Unit (UUS), 31 office channeling, and 160 Sharia Rural Financing Bank (SRFB) spread throughout Indonesia.[2]Furthermore, this amount does not include approximately 3,900 (data year 2006) Sharia Cooperatives (i.e. Baitul Maal wat Tamwil-BMT), which serve the financing needs of small and micro enterprises.[3]This figure also supported by the increasing number of Islamic banking services office network with approximately 25.31%, increased from 2,262 in 2012 to 2,525 offices in 2013.During 2012, slowing growth in the world economy resulted in Indonesia's economic growth does not meet expectations, although still relatively stable. This influenced the development of Islamic banking in Indonesia, such as the decrease of The Third Fund colllected caused by the withdrawal pilgrimage funds from Islamic banks. This, in turn, affects the growth of Islamic banking assets, which only reached less than 37% *(year of year)* and total assets was only about IDR.179 trillion at the end of October 2012.[4]Islamic banks have great potential to grow significantly.[5]In terms of market share, Islamic banking has a market share of 4.8% of bankingmarket share nationally. In terms of wealth, Islamic banking total assets reach Rp 228 trillion. While the Third Party Fund (DPK) collected is IDR. 163.97 billion, with a growth rate of assets by 37%, deposits 32% and 40% financing respectively. In addition, the market share of Islamic banking compare to

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[1]Law No. 7/ 1992 Chapter 6.

[2]Indonesian Banking Statistic, released on March, 2013, www.bi.go.id, accessed on March, 15, 2014.

[3]Salmah Said, Sharia-Based Microfinance Institutions and the Empowerment of Society Economy in Makassar, paper presented on 12th *Annual International Conference on Islamic Studies (AICIS),* November, 2012, IAIN Sunan Ampel, Surabaya, Indonesia.

[4]Bank of Indonesia, *IndonesianSharia Banking Outlook 2013*, www.bi.go.id, accessed on March, 20, 2014.

[5]Bank of Indonesia, *IndonesianSharia Banking Outlook 2013*, www.bi.go.id, accessed on March, 20, 2014.

conventional one, amounted to 5.24%. Furthermore, the number of Islamic banking customers increased significantly, amounting to 13.4 million accounts, both DPKcustomers and financing ones.

The health of banks is a tool to measure the banks' ability to compete in industry which,in turn, will affect the level of public trust.[6] The managerial capabilities will extremely determine both the quality of its business as an intermediary institution and its ability to generate profits. The precautionary principle (prudent) in banking policy is the key to success for the banking business. In addition,management needs to consider liquidity and solvency matters as theyclosely relate to public trust in the banking performance.

Performance of Islamic banking will affect the stability of the national banking system, as it is part of a national banking system of a country.[7]Potential development of Islamic banks can not be separated from the evaluation of its performance compared with conventional banks.Generally, assessment of bank performance using various method of analyses, such as ratio analysis, CAMELS, and other tools of analysis. Currently, in Indonesia, performance Islamic banking and conventional ones is evaluated and measured using CAMELS (Capital, Asset Quality, Management Quality, Management Quality, Ability Earnings, Liquidity, Sensitivity to Market Risk).BI Regulation No. 6/10 / PBI / 2004 regarding the rating system of banks health for commercial banks and No. 9/1 / PBI / 2007 regardingbanks health rating based on sharia principles, stating that Islamic banks are required to conduct health assessments that include CAMELS factors.[8]

In addition to CAMELS analysis, the performance of Islamic banks can also be evaluated by analyzing the value of Non-Performing Financing (NPF) danFinancing to Deposit Ratio (FDR) of the bank. In terms the conventional banks, this ratio is referred to as Non Performing Loan (LPF) and the Loan to Deposit Ratio (LDR). Non Performing Financing ratio describes the return rate financing paid by the customer to the bank.In other words, the Non Performing Financing shows the level of financing risk. While the Financing to Deposit

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[6]Anonym*Analisis Laporan Keuangan Dengan Menggunakan Camels Untuk Memprediksi Tingkat Kesehatan Bank Syariah (Pengaruhnya Sebelum dan Sesudah Terjadi U.S Subprime Mortgage Crisis),* http://cyber.unissula.ac.id/journal/dosen/publikasi/211406018/311camels.pdf, accessed on March , 19, 2014.

[7]Mariani Abdul Majid, *The Productivity of Islamic Banking in Malaysia,* paper presented on the National Conference on Islamic Economics on 10th-11st February 2009, at Universiti Malaya.

[8]Salmah Said, *et. al*, Refleksi Kesadaran Spiritual Perbankan Syariah di Makassar, paper presented on *International Conference on Islam, Politics, Laws, and Social Sciences*, Makassar, Indonesia, 2012, UIN Alauddin Makassar.

Ratio indicates the level of financing provided to customers (excluding interbank loans) compared to the total number of third-party funds (savings, time deposits, and demand deposits, but excluding interbank deposits) of Islamic banks.

Based on background mentioned above, the research focuses on the performance of Islamic banking in Makassar. The purposes of this research are analyzing and examining the growth and financial performanceof Islamic banking in Makassar using *Non Performing Financing (NPF)* dan *Loan to Deposit Ratio (LDR*).This research is a field researchby conducting a surveyto Islamic banks in Makassar, i.e. 1) Bank Muamalat Indonesia, 2) Bank Syariah Sullselbar, 3) BNI Syariah, 4) BRISyariah, 5) Bank Mandiri Syariah, 6) Bank Bukopin Syariah, dan 7) Bank Mega Syariah. Research data is quantitative and secondary data, obtained from Bank of Indonesia as central bank, representatives Makassar and also retrieve from Bank of Indonesia website (www.bi.go.id) and Islamic banks. Data is also gathered by distributing questionnaires to seven Islamic banks in Makassar.

Data analysis utilized is financial ratio analysis, particularly Financing to Deposit Ratio (FDR) and the Non Performing Financing (NPF).Non Performing Financing (NPF) is the ratio between the total amount of financing in substandard quality (collectability 3), doubted (collectability 4) and loss (collectability 5) with a total amount of financing disbursed.[9]Thus, this ratio measures the effect of risk financing with the performance of third-party funds. While, Financing to Deposit Ratio (FDR) is the ratio between the total amount of financing disbursed and the total number of third-party funds (DPK) collected. Capital Adequacy Ratio (CAR) is the level of capital adequacy ratio, which is the amount of equity capital required to cover the risk of loss that may arise from the risky assets.[10] This high capital ratio may protect depositors. In addition, the ratio of Operating Expenses to Operating Income (BOPO) is used to evaluate the level of efficiency and ability of the bank in its operations.[11]Moreover, Return on Equity (ROE) is used to measure the ability of the bank's management in managing existing capital to obtain net income.[12] Return on Assets (ROA) is used to measure the level of profitability, which is

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[9]Kasmir, *Manajemen Perbankan*(Jakarta: Raja Grafindo Persada, 2008), p. 273 – 274. See also Veithzal Rivai and Arviyan Arifin, *Islamic Banking.* (Jakarta: Bumi Aksara, 2009), p. 857.

[10]Kasmir, *Manajemen Perbankan*, Revision Ed (Jakarta: Rajawali Pers, 2008), p. 296.

[11]Lukman Dendawijaya, *Manajemen Perbankan*, (Jakarta: Ghalia Indonesia, 2009), p. 45

[12]Kasmir, *Manajemen Perbankan*, Revision Ed (Jakarta: Rajawali Pers, 2008), p. 298. See alsoDahlan Siamat, *Manajemen Lembaga Keuangan*, (Jakarta: Lembaga Penerbit FEUI, 2007), p.112.

the ability of the company to obtain earnings from its operations.[13] However, this research only analyses the value of Financing to Deposit Ratio (FDR) and the Non Performing Financing (NPF), because all the financial data of Islamic banks in this study is bank secrecy and cannot be accessed, except banks listed on the Indonesia Stock Exchange.

B. Main Discussion

1. Shar'i Analysisof Sharia Banks

The main difference between Islamic banking system and conventional banking system, which is known by the public, is the legal basis derived from the Qur'an. The Qur'an is the main source for the prohibition of the application of interest in all transactions of Islamic banking in particular, and all financial transactions in general. In addition, Islamic banking is strictly watched and supervised by a Sharia Advisory Board, which consists of the Muslim scholars and sharia economists. The task of this institution is to ensure that all activities and products of Islamic banking transactions are in accordance with Islamic principles. Thus, the practice of exploitation is not found in all activities of Islamic banking transactions. Furthermore, the Islamic banking system is believed to be able to solve the problem of unbalanced income distribution among the public. This in turn, may contribute to improve public welfare.

Islamic bank is a financial institution which engages in providing credit and other services in payment process and circulation of money which operates on the basis of Islamic principles.[14]However, there are some substantial differences between Islamic banks and conventional banks, especially in terms of systems and mechanisms of their transaction activities. In general, differences between Islamic banks and conventional banks can be seen from several aspects, such as investment, return, agreements, orientation, the relationship between banks and customers, board of trustees, and dispute settlement.[15]

In the Islamic Banking Act Number 21 of 2008, it is stipulated that Islamic banking is everything related to Islamic banks and Islamic business units, including institution, business activities, as well as the principles and the process in the implementation of its business activities. Islamic banks can be any type of Islamic Banks (BUS), Sharia Business Unit (UUS), and the People's Sharia Financing Banks (SRFB).

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[13]Dahlan Siamat, *Manajemen Lembaga Keuangan*, (Jakarta: Lembaga Penerbit FEUI, 2007), p.112

[14]Laws number 10, 1998 on replacement of Law number 7, 1992 on Banking.

[15]Ismail, *Perbankan Syariah*, First Edition, (Jakarta: Kencana, 2011), p. 34 – 37.

Islamic principles applied by Islamic banks is profit sharing based financing*(mudharaba),*equity based financing *(musharaka)* the principle of buying and selling goods with acquiring profit *(murabaha)* or the financing of capital goods based on the principle of pure leasing without option *(ijara)* or with the option of transferring ownership of the leased goods from the bank by another party *(ijara wa iqtina).*[16]Like conventional banks, Islamic banks also conduct fund raising activities from the third party (DPK), providing funds to the community (financing), and the provision of other financial services. These three main activities should always be in accordance with Islamic principles. The variety of Islamic banks contracts produces a variety of banking products which is more than those of conventional banking.[17]All activities and products of Islamic banks are based on religious decisions of National Sharia Board of Indonesian Ulama Council (DSN-MUI). This is conducted by the governmentto ensure that the activities and products of Islamic banks are in accordance with the Islamic principles in the economic field.

Islamic financial development in Indonesia has its own character. The structure of Indonesia Fatwa Council of Islamic Economics is more independent due to its separation from Bank Indonesia (BI) as the Indonesian central bank.National Islamic Board of Indonesian Ulama Council (DSN-MUI) issues a fatwa about the sharia economics. In Indonesia, DSN -MUI is the only authoritative institution in issuing fatwas related to Islamic financial institutions.

Another challenge is that the role of the Sharia Supervisory Board (DPS) of Islamic banks is criticized for being less optimal in improving sharia adherence of Islamic banks.[18]DPS works to provide advice and recommendation in order that banking practices constantly work in accordance with Islamic principles and controls their Shariah compliance. The research result of Bank of Indonesia in collaboration with Ernst & Young in 2008found that the role of the DPS had less impact on risk management, the reputation risk which subsequentlyhad impact on displaced commercial risk, such as liquidity risk and other risks. Based on this finding, the effort to strengthen the role of DPS can be conducted through various aspects, such as reinforcing the scientific competence of DPS, reinforcing the maximum limit of DPS responsibility, and evaluating the role of DPS in Islamic Financial Institutions by Indonesian Ulama Council and Bank of Indonesia.

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[16]Syafii Antonio,*Bank Syariah: Dari Teori ke Praktek***.** (Jakarta**:** Gema Persada Insani., 2004).

[17]Andri Soemitra, *Bank dan Lembaga Keuangan Syariah*, *First Edition* (Jakarta: Kencana, 2009), p. 73 – 93.

[18]Ibrahim Aji, *Peran DPS Bank Syariah Belum Optimal*, 25/05/2014, http://mysharing.co/peran-dps-bank-syariah-belum-optimal, accessed on October, 6, 2014.

Measurement of sharia adherence of Islamic banks lies in sharia compliance, because it is one of the ten aspects that should be kept in the Islamic banking risk: Credit risk, Market Risk, Liquidity Risk, Operational Risk, Legal Risk, Reputation Risk, Strategic Risk, Compliance Risk, Risk Returns Results and investment risk (equity investment risk). In the practice of sharia compliance in Islamic banking, there are three stages of warning if a transaction or financing filing violates the sharia principles: (1) Reminder, a stage of providing a copy to the Compliance Division; (2) Alert, a stage of providing a copy to the Compliance and Risk Management Directorate; (3) Veto, a stage of providing a copy to the FSA of RI. In addition, the issue of sharia compliance is also associated with the expansion of Islamic banks in the management of the funds to the real sector in order to encourage the betterment of public welfare. Currently, Islamic banking is still profit-oriented so that the real sector has not been seriously managed, while 99.99% of the total business in Indonesia is dominated by SMEs.

Innovations conducted need the support of government and society, especially local Muslim entrepreneurs, so that the Islamic financial industry, including Islamic banking can be a solution for improving the national economy of Indonesia. Indonesian Islamic financial assets, which is still less than 5%, is apparently small compared to the total financial industry in Indonesia.[19]This happens because the development of the Islamic financial industry is much more partial, so that the results are not optimal.

Anotherchallenge in the development of Islamic banking in Indonesia is that the usage of sharia commodity is less optimal in managing sharia bank liquidity.[20]Islamic banking industry has the money market instruments namely Interbank Mudharabah Investment Certificate. For commodities with fixed return, they have an interbank certificate commodity trading based on Islamic principles (SIKA), but has not been fully utilized. This is because the regulators (BI and FSA) have not widely provided permission for sharia commodity business practices. On the other hand, the Fiqh analysis of sharia commodity has been positively responded by the DSN-MUI with the release of their new religious recommendation (fatwa)Number 82 of 2011 on the commodity futures exchange mechanism based on the principles of Islam. As well as institutions as

[19]Yudi Suharso, *Industri Keuangan Syariah Butuh Keberpihakan Pemerintah dan Pengusaha Muslim Lokal* ,22/08/2014, http://mysharing.co/industri-keuangan-syariah-butuh-keberpihakan-pemerintah-dan-pengusaha-muslim-lokal, accessed on October, 6, 2014.

[20]Yogie Respati, *Bank Syariah Belum Memanfaatkan Komoditi Syariah*, 19/06/2014, http://mysharing.co/bank-syariah-belum-memanfaatkan-komoditi-syariah/,, accessed on October 6, 2014.

appeared in the establishment of Jakarta Futures Exchange (JFX) which was establishedon August 19, 1999.

2. The Performance of Islamic Banks

Bank health is the ability of a bank to conduct normal banking operations and its ability to properly meet all obligationsand conform with the prevailing banking regulations. Thus, Bank Indonesia has adopted rules on the health of Islamic banks.[21]In general, bank performance analysis applies CAMELS to assess the bankruptcy and financial distress of a bank. Financial ratio has the power to predict the onset of bankruptcy and financial distress of a bank. CAR ratios, APB, NPL, PPAPAP, ROA, NIM and ROA, statistically differ between the bank experiencing bankruptcy and financial distress with a bank with no problems of bankruptcy and non-financial distress. According to Almilia, only CAR and BOPOare significant variables in determining the level of bankruptcy and financial distress of a bank.[22]

Another aspect that can be analyzed to assess the health or financial performance of Islamic banks is to analyze the Non Performing Financing (NPF) and the Financing to Deposit Ratio (FDR) of the Islamic bank. This is important because the financing is the largest asset point as well as the largest source of income for banks, including Islamic banks. On the other hand, the fragility of the banking sector is due to, among others, the large proportion of NPF.

Non-Peforming Financing (NPF) is the return rate of problematic financing provided by the customers to the banks. The risk of loss due to the repayment of non-current bank financing will affect revenues and profits received by the banks. In the granting of financing to customers, sharia banks are equipped with the sale and purchase agreement or principle and profit sharing. Financing with a contract for profit sharing is *mudharabah* and *musyarakah* financing, while financing with the purchase is *murabaha*, *salam*,

[21]Sigit Triandaru dan Totok Budisantoso, *Bank dan Lembaga Keuangan Lainnya*(Jakarta: Salemba Empat, 2009), p. 51. The Supervision of the banking system, including Islamic banking transferred to the Financial Services Authority (FSA) since January 1, 2014 under Law No. 12 in 2011 to give more protection to consumers in the financial sector.

[22]Luciana Spica Almilia dan Winny Herdiningtyas, Analisis Rasio CAMEL terhadap Prediksi KondisiBermasalah pada Lembaga Perbankan Periode 2000-2002, *Jurnal Akuntansi dan Keuangan*, Vol 7, No. 2, Nopember 2005, ISSN 1411 – 0288, STIE Perbanas Surabaya.See also Adhistya Rizky Bestari, Pengaruh Rasio CAMEL dan Ukuran Bank terhadap Prediksi Kondisi Bermasalah pada Sektor Perbankan (Studi pada Perusahaan Perbankan yang Terdaftar di Bursa Efek Indonesia Tahun 2007 – 2011), *Undergraduate Thesis,*Faculty of Economics and Business, Universitas Diponegoro, Semarang, 2013.

and *istishna* financing. Financing, which has been disbursed by Islamic banks through the principle of sale and purchase and profit sharing with the customers, is potentially leading to problematic credit or financing. Financing problems at Islamic banks have been associated with how businesses financed by Islamic banks have been managed, whether the customers (*mudharib*) have completely run the business in accordance with the agreed contract, or whether the customers are negligent or commit willful misconduct. The troubled financing can be demonstrated by the level of Non-Performing Financing (NPF).

In addition, the financial performanceof Islamic bankscan also beindicated by theFinancing to DepositRatio(FDR), which at theconventional bank is indicated by loan to deposit ratio(LDR. FDR is utilized toassessa bank'sliquidity. The value of FDR explains thebank's ability to return the customers' withdrawalfunds by relying on credits provided as a sourceof liquidity. The greaterfinancing is, the more increased the income is, which in turn the earnings(ROA) will alsoincrease.[23]Thus, theCapitalAdequacy Ratio(CAR), NPF/NPL, andFDR/LDR significantly influence toROA[24]

According to Bank Indonesia's Circular Letter Number 6/23/DPNP on May 31, 2004 Appendix 1e, Financing/Loan to Deposit Ratio (LDR) can be measured from the ratio between the total number of financing / loans to third-party funds. The amount of financing disbursed will determine the bank's profit. If the bank is unable to disburse the funds, while collected funds are numerous, this will cause the bank losses. The higher the Financing to Deposit Ratio (LDR) is, the more increased the company's profit will be. It is assumed that Islamic banks are able to provide financing effectively, so that the number of non-current funding will be low. Based on Bank Indonesia regulations, value standard magnitude of Loan to Deposit Ratio (LDR)/FDR is between 85% - 100%. FDR serves as an indicator to determine the level of vulnerability of an Islamic bank.[25]According to the quality, financing is based on the probable risk

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[23]Sri Wahyuni Rasyid, *Analisis Pengaruh Loan to Deposit Ratio (LDR), Net Interest Margin (NIM) dan Efisiensi terhadap Return on Asset (ROA) Bank Umum Indonesia , 2012,* (http://repository.unhas.ac.id/bitstream/handle/123456789/1551/SKRIPSI%20LENGKAP%20-FEB-MANAJEMEN-%20SRI%20WAHYUNI%20RASYID.pdf?sequence=1, accessed on September, 28, 2014.

[24]Ruslim, Analisis Pengaruh *Capital Adequacy Ratio* (CAR), *NonPerforming Loan* (NPL), dan *Loan to Deposit Ratio* (LDR) terhadap *Return on Assets*(ROA) pada Bank Umum Syariah yang Terdaftar di Bank Indonesia, *Undergraduate Thesis,*Management, Faculty of Economicsdan Business, Universitas Hasanuddin, 2012.

[25]Value LDR / FDR can be determined through a formula prescribed by Bank Indonesia decree No. 3/30/DPNP, Desember, 14, 2001 yaitu:***LDR = TOTAL KREDIT / TOTAL DANA PIHAK KE 3 + EQUITY***

of the condition and compliance of customers to meet their obligations to pay the shared profit, as well as to pay off the financing. In other words, the main element in determining the quality is the time of paying the shared profit, installment payments or repayment of the financing capital.

3. Research Findings

The Islamic finance industry has grown rapidly in the last decade. In Indonesia, Islamic banks develop significantly, marked with the increasing number of customers and the number of establishment of Sharia Bank compared to conventional banks. It is also shown in Makassar and South Sulawesi, where the growth of Islamic banking follows its growth nationally. Some Sharia Service Units (UUS) do spin-off from their 'parent' conventional banks and stand alone as the Islamic Banks (BUS). The following are description seven Islamic Banks operate in Makassar, which describes the general conditions of each bank, i.e. history, business development, the third-party funds (DPK), and the total financing disbursed. Due to the precautionary principle (prudent) every bank, then the bank's financial data of individual bank can not be accessed by the public.

a. BNI Syariah

Sharia Business Unit (UUS) BNI established on April 29, 2000 based on Act No. 10/1998. This then was followed by the opening of five branches in Yogyakarta, Malang, Pekalongan, Jepara and Banjarmasin. Furthermore, UUS BNI has grown to 28 branches and 31 sub-branches.[26]In addition to BNI's UUS, Islamic services can also be enjoyed by customers at BNI conventional branch known as office-channeling system, which is approximately 1500 outlets throughout Indonesia.

Although it spinned-off, BNI Syariah will continue to obtain additional capital funding from its conventional parent, BNI, as majority shareholder.This additional paid up capital is as a form of support for business development of BNI, sharia subsidiary.[27] With the additional capital of Rp 500 billion, it is expected to BNI Syariahhas paid up capital to Rp 1.5 trillion at the end of 2014. Moreover, the transfer of funds pilgrimage IDR. 2.1 trillion fromconventional BNI further strengthen the liquidity position of BNI Syariah. Performance BNI Syariah financing shows encouraging. Marginratio of BNI Syariahis in the equivalent 12.5% - 14%, depending on the type of financing. The margin has been increased by 50 basis points due to tight liquidity conditions in 2013. With

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[26]Anonym, *Sejarah BNI Syariah*, http://www.bnisyariah.co.id/category/berita#,accessed on September, 30, 2014.

[27]Yogie Respati, *BNI Syariah Dapat Tambahan Modal*, 20/06/2014, http://mysharing.co/bni-syariah-dapat-tambahan-modal/, accessed on October, 4, 2014.

the additional capital and the transfer of funds pilgrimage of conventional BNI, BNI Syariah may still be able to maintain the level of the margin.
The assets,third party funds (DPK), and financing growth of BNI Syariah also contribute to this promising figure, as follows.[28]Until May 2014, BNI Syariah assets reached Rp 16.8 trillion, or there was an increase of 35.25% from Rp 12.4 trillion in May 2013. Furthermore, the Third Party Funds (DPK) also grew year on year by 34.8% to Rp 14,6 trillion, from Rp 10.8 trillion in 2013. Moreover, financing increased by 41.72%, from Rp 9.1 trillion in 2013 to Rp 12.9 trillion in 2014. As of May 2014, BNI Syariah also obtains net income around Rp 54.4 billion. This shows thatBNI Syariahis able to survive in the tight competitive banking industry nationally.

BNI Syariah Makassar[29] has 82 employees with formal various educational background. However, the bank still provides training on Islamic economics for them. As conventional banks, BNI Syariahalso obtain funds from society such as savings, deposits, and demand deposits. While the distribution of funds for financing among other products: iB Hasanah, pilgrimage financing, property, *rahn*(non-profit financing), multiservice, and multipurpose ones.According to General Affairsof BNI Syariah, for other financial services, the bank facilities salary payroll, cash management, and payment center. Currently, the number of customers served by BNI Syariah reached 60,000 customers.

Generally, the contract used for third party funds (DPK)is*mudharabah mutlaqoh*. As for financing, the commonly contract used is *murabaha, mudaraba, and musharaka*. For other financial services utilizeijara multiservice. Customers mostly prefer savings of third-party funds (DPK) products as it has low cost when to to transfer to conventional BNI, free of cost account management, and can be equipped with a debit card. While for financing products, more customer use financing for gold and pilgrimage, because lower administrative costs, the value of financing is up to a maximum of IDR. 150 million.

b. BRI Syariah

PT. BRISyariahis established when conventional PT. Bank Rakyat Indonesia (Persero) Tbk.,acquired Bank Jasa Arta on 19 December 2007. After acquiring permission from Bank of Indonesia on October 16, 2008 through a letter o.10/67/KEP.GBI/DpG/2008, then on November 17, 2008 BRISyariah is

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[28]Yogie Respati, *BNI Syariah Dapat Tambahan Modal*, 20/06/2014, http://mysharing.co/bni-syariah-dapat-tambahan-modal/, accessed on October, 4, 2014.

[29]Based on responds of *General Affair* of BNI Syariah Makassar on research questionnaires.

officially operated. Since then, PT. BRISyariahchangesits operations from conventional to Islamic bank.[30]

The spin-off effort of Sharia Unit Service (UUS) of PT. Bank Rakyat Indonesia (Persero), Tbk.,nationally and merged to PT. BRISyariahon December 19, 2008, marked the Islamic bank activities. Currently, PT. BRISyariah Bank is the third-largest Islamic bank in Indonesia by assets. PT. BRISyariah Bank grew rapidly both in terms of assets, the amount of financing and the value of third party funds, with focus on the middle and lower segments. BRISyariah Makassar has 200 employees who obtain regular training Islamic economy.[31] BRISyariah fund raising is done through third-party funds (savings, time deposits, and demand deposits). Type of BRI Syariah financing offered to the public generally are consumer financing (mortgage, car), working capital, multipurpose loans, investments, and revolving working capital. As for other financial services, BRISyariah offers clearing and RTGS (Real Time Gross Settlement). BRISyariah Makassar financial data can not be accessed as it is confidential.

c. Bank Bukopin Syariah

PT Bank Syariah Bukopin history began when PT Bank Bukopin Tbk acquired a commercial bank, PT Bank Persyarikatan to be developed into an Islamic bank.[32]On October 27, 2008, Bank Syariah Bukopin began its operations based on sharia principles after acquiring the sharia operating license from Bank of Indonesia. Furthermore, on 11 December 2008 has been inaugurated by the Vice President of the Republic of Indonesia. As the majority shareholder, the full commitment of PT Bank Bukopin Tbk is realized by increasing the paid-up capital to make PT Bank Syariah Bukopin as an Islamic bank with the best service. On July 10, 2009 on approval letter from Bank Indonesia, PT Bank Bukopin Tbk has transferred the rights and obligations of sharia business in PT Bank Syariah Bukopin.

Bank Bukopin SyariahMakassar[33] offers fund products, i.e. saving iB 'siaga', iB 'Rencana', Deposit iB, and iB time deposit. While the financing products offered are generally the consumer financing (mortgage and car), cash collateral, selling, and channeling. For other financial services are in the form of SDB, and transfer. The number of customers served is 9.252. Contracts used for savings and current accounts is*wadi'ah dhamanah yad*, and *mudaraba mutlaqah*

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[30]Anonym, *Sejarah BRI Syariah*, http://www.brisyariah.co.id/?q=sejarah, accessed on October, 1, 2014.

[31]Based on questionnaires' responded by staff of BRISyariah Makassar.

[32]*Anonym, Sejarah Bank Syariah Bukopin,, http://www.syariahbukopin.co.id/page/content/2/1,accessed on Oktober, 2, 2014.*

[34]Based on questionnaires' responded by staff of Bank Bukopin Syariah Makassar.

for deposits. While the contract for the financing, is *murabahah, musharaka* and *mudaraba*. Savings iB'siaga' is the most product in demand, because administrative process is fast, free monthly administration fee, and free insurance protection. In addition, for financing products, car financing is the most attractive financing products, as it is easy and fast requirements, installments are adjusted for customers' income, cash in advance is relatively low, and has competitive margins. As of the prudential of Bank Bukopin Syariah Makassar cause financial data can not be accessed.

d. Bank Mega Syariah

Establishment of Bank Mega Syariah[34] originated from the acquisition of PT Bank Umum Tugu (Bank Tugu), which was established on July 14, 1990. The acquisition was made by CT Corpora (formerly known as Para Group), through PT Para Global Investindo Investama and PT Para Rekan Investama in 2001. Since the beginning, the shareholders do want to convert a conventional commercial bank to sharia commercial bank syariah. On July 27, 2004, Bank Indonesia allowed Bank Tugu converted into PT Bank Syariah Mega Indonesia (BSMI). BSMI officially operated on August 25, 2004 and decided to change its logo to its sister company, PT Bank Mega Tbk., but only different in colors, three years later, on November 7, 2007. Since November 2, 2010 up to now, the bank was renamed PT Bank Mega Syariah.

In addition, on April 8, 2009, a permit from the Ministry of Religious Affairs of the Republic of Indonesia acquired by Bank Mega Syariah as the receiving bank deposit costs of conducting the Hajj (BPS BPIH). Thus, Bank Mega Syariah become theeighth commercial banks as BPS BPIH connected online with Haji Integrated Computerized System (Siskohat) Ministry of Religious Affairs. This permission would be a new basis for Bank Mega Syariah to further complement the needs of Islamic banking.

Bank Mega SyariahMakassar[35] conduct basic sharia training for new employees, and supported by training conducted if there is a visit from the head office. Products of its third party funds (DPK) are generally similar to other Islamic banks. For product financing, it provides micro financing, consumers financing and for retirees. For other financial services, it offers pick-up bill payment for water and electricity payments through ATM and teller. Generally, type contracts used for third party fund (DPK) products are *wadi'ah* and *mudaraba*. For product financing, *murabaha* contract is commonly used. For third party fund (DPK), product in demand is hajj savings, because the bank does pick-up funds directly to the customer, good cooperation with the Ministry

[34]Anoyim, *Bank Mega Syariah,* http://www.megasyariah.co.id/, accessed on October, 3, 2014.

[35] According to Admin support Sharia Mega Bank, Makassar.

of Religious Affairs, and good service of marketing staff. While for financing products, micro-financing is the most product in demand, as the process is fast, the interest rate (the revenue sharing) is slightly low, and this product is very helpful for micro-entrepreneurs.

e. Bank Syariah Sullselbar

Bank Syariah Sullselbar[36]separated (spin-off) from its parent, Bank Sulselbar in 2009. Currently, it has 28 employees, mostly with educational background in economics. As well as conventional banks, Bank Syariah Sullselbar offers banking products such as third-party funds-DPK (savings, time deposits, and current accounts), distribution of funds in the form of financing, and other financial services (clearing, RTGS, and payment points). Generally, contract for financing is *murabaha, mudharaba,* and *musyaraka* for working capital, *murabaha* for investments and consumption, and *rahn* (non-profit financing). The value of third-party funds is around IDR. 198 billion, while the value for financing is about IDR. 200 billion.

Currently, Sharia Sulselbar serves customers for more than 10,000 customers. Savings has the largest customers for the third-party funds (DPK). In addition, the most in demand product, among others, is deposit, because it provides a high margin of revenue sharing. As for financing products, *murabaha* for consumption (for home ownership and renovations) has the largest number of customers. Customers use this type of financing for some reasons, such as, because it is a basic requirement, payments through payroll deduction in the bank, and the fee is relatively low. because of the precautionary of the bank results in limited financial data can be accessed.

f. Bank Muamalat

Milestone in the development of Islamic banking in Indonesia, started with the establishment of Bank Muamalat Indonesia (BMI)[37] which is initiated by the Indonesian Ulema Council (MUI) and the Government of Indonesia on November 1, 1991. The operations of BMI started on 1 May 1992. This establishment was welcomed and gained good support by the Association of Indonesian Muslim Intellectuals (ICMI) and some Muslim businessmen, as well as from the wider community. This is evidenced from the Company's commitment to purchase shares worth of Rp 84 billion at the time of the signing of the articles of the bank.

Bank Muamalat will initiate the initial public offering (IPO) in 2016 or at the latest in 2017. With the addition of the total capital of Rp 3.5 trillion, the bank is

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[36]According to *Branch Manager*Bank Syariah Sullselbar.

[37]Anonym, *Profil Muamalat*, http://www.bankmuamalat.co.id/tentang/profil-muamalat, accessed on October,1, 2014.

able to expand in the next two years, globally. An additional capital injected about Rp 1.35 trillion (rights issue) in December 2013 made a capital adequacy ratio of Bank Muamalat to 17%. In 2013, assets of Bank Muamalat grew around 21.94% to Rp 54.7 trillion. In the last five years the average growth in thoird-party fund (DPK) is around 32.92%, while the financing is about Rp 41.7 trillion. Bank Muamalat will also continue to maintain financial deposit ratios to below 100%.[38]

Bank Muamalat targets the process of cooperation with the International Finance Corporation.Pembiayaan financing will be divided into two stages of distribution, wherein each of US $ 30 million. The first phase is targeted in the second half year 2014 and the second phase is in early 2015. The financing will be devoted to encourage the financing of small and medium enterprises (SMEs). Until the April 2014 SME financing portion of Bank Muamalat amounted to 28% of the total financing of IDR.42.4 trillion. In 2014, BMI targeted about 15% growth in SMEs financing.[39] Until April 2014 BMI recorded assets amounting to IDR.57 trillion and third party funds of IDR.42.2 trillion. Despite, the funding to deposit ratio (FDR) above 100%, but BMI still has strong liquidity. In addition,while it still has funds on the secondary mortgage facility and the issuance of sukuk earlier, BMI also noted the daily transactions in Bank Indonesia Sharia Deposit Facility between IDR.1.6 trillion to IDR.2 trillion.

BMI Makassar[40] has a total of 278 employees, 218 banking staff, and 60 non-banking staff. Employee educational background in economics is the largest number of total employees, i.e 114 staff. To improve the skills of employees about Islamic economics and Islamic banking, BMI Makassar organizes regular training every three months with different themes, and additional trainings are held if needed. The third-party funds of BMI fund are savings, current accounts and deposits. While the financing products include mortgage financing Muamalat iB, working capital, sharia current account financing, investment financing, residential sharia business, auto Muamalat, pension financing and Umrah. Furthermore, other financial services, among others, bank guarantees, LC (standby LC), remittance, internet banking, mobile Muamalat, sms blast. Contract used for third party fund (DPK) is *wadi'ah* for savings and current accounts, and *mudharaba* for deposits. Furthermore, the

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[38]Yogie Respati, *2016, Bank Muamalat Kembali Tawarkan Saham,* 22/04/2014, http://mysharing.co/2016-bank-muamalat-kembali-tawarkan-saham/, accessed on October, 4, 2014.

[39]Yogie Respati, *Bank Muamalat Seriusi Pembiayaan UKM,* 26/05/2014, http://mysharing.co/bank-muamalat-seriusi-pembiayaan-ukm/, accessed on October, 7, 2014.

[40]According to *Relationship Manager Retail Funding*BMI Makassar.

contract for financing products, BMI Muamalat is using*murabaha, musharaka, ijara, qardh, mudharaba, wakalah,* and *kafalah*. For other financial services, BMI providescontract of *kafalah, wakalah*, and *hawalah.* Savings is a product of third-party funds (DPK) is the most favorable by public, because it has competitive revenue sharing scheme, funds can be used and withdraw at any time, and many interesting features and meet the needs of public. While house mortgage financing Muamalat iB is the most desirable, as its fee islow, the process is fast, affordable installments, as well as high needs of property in Makassar. As the same reason from other Islamic banks studied in this research, the prudential of Bank MuamalatMakassar result in financial data can not be accessed for this research.

g. Bank Mandiri Syariah

BSM Syariah Mandiri in Makassar established in 2001.[41]It offers third-party funds, such as savings, time deposits, and demand deposits. While financing products such as rahn, payment for pilgrimage(Hajj), bothcommercial financing and consumer ones. For other financial services, BSM serves clearing and exchange rate. As of June 2014, BSM serves about 112.157 customers for all types of its products, both third-party funds and financing. The types of financing provided are working capital financing, investment, and micro, as well as consumer financing in the form of *rahn*. Contract used are*mudharaba*, and *wadi'ah* for third-party funds (DPK). While the contract for financing are*murabaha, musharaka, qardh,* and *rahn.*The most in demand BSM products by public is saving due to low initial deposit and ATM facilities. While the most desirable financing products is a *rahn*pawn, because its*ujrah* costs is cheaper. As the same reason from other Islamic banks studied in this research, the prudential of BSM Makassar result in financial data can not be accessed for this research.

i. The Performance Sharia BankingNationally

Based on data of Indonesian Sharia Banking Statistics,[42]the total combined income of BUS and UUS per July 2014 was[43]IDR 10.583 billion. While the load of BUS and UUS was IDR 9,374 billion. Profits obtained by BUS and UUS were around IDR.1,037 billion. For the composition of the Third Party Fund (DPK) of BUS and UUS per July 2014, was IDR. 13,378 billion for the current account (*wadi'ah* contract), iB savings (*wadi'ah* and *mudaraba*

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[41]According to *Human Relation* BSM Makassar.

[42]www.ojk.go.id/statistik-perbankan-syariah-juli-2014, accessed on October, 5, 2014.

[43]www.ojk.go.id/statistik-perbankan-syariah-juli-2014, accessed on October, 5, 2014.

contract) were IDR. 55,801 billion, and iB deposits (*mudharabah*) wereIDR. 115,729 billion. This figure shows that Islamic banking is also competitive with conventional banks in serving the needs of bank services for the community. When linked to the analysis of the profitability level, revenue and profit obtained, this describes the ability of Islamic banking to generate profits, while the profits obtained from the products of third party funds show an aggressive level of activity of Islamic banking. It also shows the great interest and public confidence towards the products of Islamic banking.

Like conventional banks which offer credit loans, Islamic banking also distributefinancing products with diverse agreements and contracts. Total financing offered to the community with a variety of contracts was respectively USD. 13,802 billion (*mudharabah* contract), IDR.42,830 billion (*musharaka* contract), IDR.112,288 (*murabahah* contract), IDR.588 billion (*istishna*contract), IDR.10,319 billion (*ijarah* contract), and IDR.8057 miliar (*qardh* contract). Based on the total financing, these figures show that most financing which were distributed by Islamic banking were *murabaha* contract, namely a contract by which the Islamic bankspurchase customer-needed goods and then sell them to customers. The selling price of goods is carried at cost plus an agreed profit margin between Islamic banks and customers. The interesting thing is the financing with *qardh*, financing as a loan without profit, which is not offered in conventional banks. This sufficiently significant financing value with *qardh* shows that Islamic banking also has a social function to help improving the welfare of the community, in addition to its function to gain profits (profit-oriented).

The structure of total financing based on its type of usage is for financing the work capital aroundIDR. 75,765 billion, for financing an investment around IDR.35,465 billion, and for consumer financing at approximately IDR.76,655 billion. These figures illustrate the financing which were generally distributed to consumptive needs of the society, such as housing and vehicle financing, even though the financing for work capital also reached significant numbers. The total financing which is based on financing group has reached respectively IDR. 109,506 billion for small and medium enterprises (SMEs), and IDR. 78,379 billion for non small and medium enterprises.This highamount of funds distributed to SMEs shows that that Islamic banking supports government programs to encourage the development of home industries at small and medium-scale enterprises.

Based on the quality of financing, the composition of Islamic banking financing is[44]approximately IDR. 181,331 billion (performing financing, current), IDR. 169,077 billion (current financing), IDR. 12,253 billion (special

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[44]www.ojk.go.id/statistik-perbankan-syariah-juli-2014, accessed on October , 5, 2014.

mention), and approximately IDR. 6,554 billion for non performing financing (non-current). For sub-standard financing is IDR. 2,039 billion, for doubtful one is IDR. 1,035 billion, and for lost one is around IDR. 3.480 billion. These figures indicate that the financial performance of Islamic banking, in terms of financing, is 93.3% classified as current financing, 5.5% classified as sub-standard, and around 1.2% classified doubtful and loss. In total, non-performing loans of Islamic banking is only about 3.49%, still lower than the provisions of Bank Indonesia, which around 5%.

Based on the type of its usage, this Non Performing Financing comes from work capital of IDR. 3,144 billion, an investment at around IDR. 1,332 billion, and consumptive financing at IDR. 2,078 billion. This suggests that the problematic financing at Islamic banking is much more on productive sectors that require work capital. This is unavoidable due to the performance of the community business is influenced by factors of both macro (in country and global economy, political, legal, technological, social and cultural conditions) and micro (internal management).

The performance of financial ratios of BUS and UUS at Islamic banking per July 2014,[45]was quite good. Its Capital Adequacy Ratio (CAR) was 16.68% and its return on equity (ROE) was at approximately 12.58%. the data of these ratios were only from the BUS. The ratio of return on assets owned by BUS and UUS was around 1.09%; the ratio of Non Performing Financing (NPF) was about 3.48%; Financing Deposit Ratio (FDR) was approximately 95.50%, and the ratio of operating expenses to operating income (BOPO) was approximately 84.54%. Based on the capital adequacy ratio of 16.68%, which is 8% greater than the minimum requirement of Bank Indonesia, it showed that the capital of Islamic banking is healthy. The value of ROE ratio, on the other hand, demonstrates the ability of Islamic banking to gain profit by maximizing its capital. The high Financing Deposit Ratio indicates that the high financing supplied is a proof that Islamic banking is highly demanded by the public.

Islamic banking in Makassar experiences significant growth.[46]By April 2014, the assets of Islamic banking in South Sulawesi amounted to 16.18% or approximately around IDR 7,075 billion, of which 10, 76% for state owned Islamic banks, and around 17.46% belong to Indonesian private banks that have Islamic business units. In terms of fund raising from third party, a significant increase occurs since 2013, which is around IDR. 2,785 billion. 1.84% of the collected funds are for demand deposits, 25.94% for savings deposits and 36.63% for deposits. An increase in this figure is anevidence that Islamic

[45]www.ojk.go.id/statistik-perbankan-syariah-juli-2014, accessed on October, 5, 2014.

[46]Based on data from Bank of Indonesia region South Sulawesi and see also www.ojk.go.id/statistik-perbankan-syariah-juli-2014, accessed on October, 5, 2014.

banking in Makassar has initially attracted the public in general. For the area of Makassar, the total third-party funds collocated were around IDR. 2,632 billion, the amount of funds provided were IDR. 4,656 billion, with its financing deposits ratio is approximately 176.90%. The performance of Islamic banks in South Sulawesi can also be viewed from the level of financing deposit ratio, namely the ratio between the level of funds provided and the level of funds collected. Financing deposit ratio of public Islamic banks in South Sulawesi amounted to 201.67% as of April 2014. This value indicates the value of financing provided to the public. While non-performing financing or the level of problematic financing was only 1.49%, which was below 5%. This condition indicates that the troubled-financing of Islamic bank customers is low. In other words, Islamic banks experience no problems in providing funds to customers compared to problems faced by conventional banks. Even bad credit, for example, from housing sector triggered the onset of the global financial crisis in 2008.

C. Conclusion

The development of Islamic banks in Makassar and South Sulawesi, and in Indonesia in general, showed significant positive developments from year to year. The performance of Islamic banks in South Sulawesi in terms of non-performing financing and financing to its deposit ratio showed an incredibly great performance. Both of these ratios are generally taken as one of the benchmarks to assess the performance of a bank. Thus, it can be said that Islamic banks were able to align themselves with conventional banks in serving the financial needs of society. Furthermore, it is an added value that Islamic banks apply Islamic principles in their operating systems and mechanisms, and in their products, which are alien to conventional banks. With this competitive performance compared to conventional banks, Islamic banks in Makassar, South Sulawesi in particular and in Indonesia in general have potentials to rapidly grow in the future.

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