COMPARATIVE ANALYSIS OF SHARIA BANK FINANCIAL PERFORMANCE AND CONVENTIONAL BANK IN PERIOD 2003-2007

Imam Subaweh
Kepala Pusat Studi Ekonomi Syariah Universitas Gunadarma
imas@staff.gunadarma.ac.id

ABSTRACT

Sharia banking industries provides a significant contribution to the Indonesia's economy. The existence of bank implementing sharia (i.e., Islamic) principles has triggered a tighter competition in the nation's bank industries. This requires bank managements to work harder in improving their financial performances. Aims of this study are (i) to compare financial performance between sharia banking and conventional banking with respect to ratios which follow: loan to deposit ratio (LDR); return on equity (ROE), and deposit to asset ratio (DAR), and (ii) to analyze the effect of loan to deposit ratio (LDR) and deposit to asset ratio (DAR) on return on equity (ROE). Objects of the study were three sharia banks and 20 conventional banks having highest assets according to the Indonesian Banking Architecture (API). Multiple linear regression analysis was applied to accomplish the second objective. Results of the study indicated that there no significant financial performance differences between sharia banking and conventional banking. Return on equity (ROE) was not affected by loan to deposit ratio (LDR) and deposit to asset ratio (DAR). It was also found that bank income mostly obtained from activities other than its primary function (i.e., financial intermediary institution). It is suggested that to increase their income as well as to improve their financial performance banks are required to increase their loan, especially to real sectors (i.e., small and medium enterprises), to restructure the non performing loan and to minimize their operating costs.

***Key Word**: Performance Analysis, Conventional, Syariah Bank*