JOURNAL OF
BUSINESS AND MANAGEMENT
Vol. 5, No.1, 2016: 225-235

THE PROFITABILITY COMPARISON BETWEEN ISLAMIC BANK AND CONVENTIONAL BANK IN INDONESIA FROM 2004 TO 2014

Muhamad Ridho Chandra Sena and Taufik Faturohman
School of Business Management
Institut Teknologi Bandung, Indonesia
muh.ridho@sbm-itb.ac.id

Abstract. Islamic Bank has grown quickly in all over the world including Indonesia. Islamic Bank not only exists in countries where Muslims are the majority but also in countries where Muslims are minority such as the United Kingdom and Japan. Islamic Bank grows significantly with the pace of 10 to 15% every year from 1997 to 2007, and it hopes that it will remain consistent focused growth in the future. In 1991, the first Islamic Bank that established in Indonesia was Bank Muamalat Indonesia and that year was the introduction of dual banking system era in Indonesia. As Islamic Bank in Indonesia keeps growing, the profitability performance should also increase. Therefore, this research focuses on analyzing and compare profitability between Islamic Bank and Conventional Bank. This research includes the most recent data that cover financial report from 2004 to 2014 to observe the performance of Islamic Bank and Conventional Bank in Indonesia. The profitability ratios applied in this research are Return on Assets (ROA), Return on Equity (ROE), Profit Margin (PM), Return on Deposit (ROD), and Net Operating Margin (NOM). This research observed all banks in Indonesia with available data. This study covers 1523 banks that include 1228 Conventional Banks, 78 Islamic Banks, and 217 Islamic Business Unit (IBU). The finding of this research shows that there are differences between Islamic Bank and Conventional Bank in each ratio that variates through the year.

Keywords: Islamic Bank, Profitability, Financial Ratios

Introduction

Islamic Bank has grown quickly in all over the world including Indonesia. Islamic Bank not only exist in countries where Muslims are the majority but also in countries where Muslims are minority such as the United Kingdom and Japan. Between 2009 and 2013, Islamic Banking growth is faster than Conventional Bank with an annual rate of 17.6%, will keep growing by an average of 19.7% per year to 2018(The Economist, 2014). According to World Islamic Banking Competitiveness Report 2014-15 by Ernst & Young(2015), emerging markets such as Turkey, Pakistan and Indonesia had made big progress with Compound Annual Growth Rate(CAGR) of 18.7%, 27.7% and 43.5% respectively.

In Indonesia, the first Islamic Bank, Bank Muamalat Indonesia, established and it was also the start of dual banking system era in Indonesia that will be implemented later on in 1998(Ascarya & Yumanita 2005). Bank Indonesia and OJK(2015) set a target that Islamic Banks will hold at least 15% of market share by 2023. By 2015, the number of Islamic Bank grew to 12 Islamic Banks, 163 Islamic rural banks, and 22 Islamic Business Units. Between 2010 and 2013, the CAGR of Islamic Bank in Indonesia grew to 35% and expected to keep increasing. Over the research period from 2004 to 2014, the Compound Annual Growth Rate(CAGR) of total asset of Islamic Bank is around 30%, which is higher and almost doubled the Conventional Bank's Compound Annual Growth Rate(CAGR) of total asset that is 15%.

Literature Review

Islamic Bank's Growth in the World

In 1979, the first modern commercial Islamic Bank, Dubai Islamic Bank, was established. This bank was established due to a mission set up by Islamic Development Bank to provide funding to projects in the member countries in 1975(Warde, I 2000). After breathtaking development in all over Muslim countries, an accounting organization, in 1990, Accounting and Auditing Organization for Islamic Financial Institutions(AAOIFI) was established. Islamic Bank grows significantly with the pace of 10 to 15% every year from 1997 to 2007, and it hopes that it will remain consistent focused growth in the future(Juan Sole 2007). According to Ernst & Young(2014), between 2009 and 2013, Islamic Banking assets grew at an annual rate of 17.6% and expected to keep growing its assets.

Islamic Bank's Growth in Indonesia

In 1991, the first Islamic Bank that established in Indonesia was Bank Muamalat Indonesia. That year was the introduction of dual banking system era in Indonesia. In 1998, the government set a regulation where Conventional Bank may open a business with Islamic Principle that will be called Islamic Business Unit, this regulation stimulate the growth of Islamic Bank in Indonesia since in this year the dual banking system is implemented (Ascarya & Yumanita, 2005). according to OJK(2014), the market share of Islamic Bank in Indonesia can be categorized as low compared to other country's Islamic Bank, which only holds 4.9% of market share while Malaysia's Islamic Bank helds 20% of market share. Nevertheless, Indonesia's Islamic Bank still has an enormous potential since Indonesia is one of few countries with the most Islam population in the world. Islamic Banking divided into two types of bank, which are Islamic Commercial Bank and Islamic Business Units(IBUs). According to Indonesia's Bank Regulation by OJK in 2009, IBUs are working units from Conventional Bank that doing business activities with Syariah principle, or working unit from branch office from some banks that located in foreign countries with Syariah principle.

Islamic Bank's Products

Islam's law prohibit their people to receive interest upon payment that came from the banking transactions that is from loan and deposit, so in order to gain profit, Islamic Bank replaced the interest concept with profit-loss-sharing system and also markup scheme for delayed payments and trade-financing commissions are allowed under the Islamic banking model(Olson, Zoubi 2008). Islamic Bank's products are developed based on the contracts that complied with Syariah Law. Islamic Bank has several products that they can offer to their customer, which are:

1. Mudaraba
   The Islamic Bank give funds to the customer that will use the funds for productive activities.
2. Musharaka
   The Islamic Bank give some part of the equity and working capital for a particular project and shares in benefit or loss.
3. Murabaha
   The Islamic Bank will add a markup to the purchase price before buying assets on behalf and sell it to the customer again.
4. Ijara
   The customer will select some equipment, and the bank will purchase it and then the bank will lease it bank to him.
5. Ijara wa Iktina
   This Islamic Bank's product is almost similar to Ijara. The difference is that the purchase of the equipment is committed at the end of the rental period.
6. Bai at Salam
   The Islamic Bank provide an agreement for sales of goods where the customer will pay first, and the goods will be delivered later.
7. Istisna

This Islamic Bank's product is almost similar to Bai at Salam. The difference is that this product acquires goods on behalf of a third partner.

8. Hibah(Gift)
   Hibah is a voluntary payment made, hibah usually arises in practice when Islamic Banks voluntarily pay their customers a 'gift' on saving account balances.

Contrasts between Conventional Bank and Islamic Bank in Term of Financial Statement

According to Faturohman, Taufik(2013) there are differences between Conventional Bank and Islamic Bank in term of a financial statement. The financial statement standards for Conventional Bank in Indonesia are based on the International Financial Reporting Standards(IFRS) while Islamic Bank is based on the standards set by Accounting and Auditing of Islamic Financial Institutions (AAOIFI). It is necessary to figure out the financial statement formats for both types of banks and do adjustment to compare their financial data.

Previous research about Islamic Bank's Profitability

Profitability is commonly used as the measurement of company's financial performance. Profitability measurement and comparisons can only be conducted based on comparable financial reports. In this section, there will be a discussion about previous research that measure and compare Conventional Bank to Islamic Bank using profitability ratios.

Olson and Zoubi(2008) study whether it is possible to distinguish between Conventional Bank and Islamic Bank in GCC region from 2000 to 2005. This research use profitability ratios, efficiency ratios, asset quality indicators, liquidity ratios, and risk ratios. The profitability ratios that used in this research are Return on Assets(ROA), Return on Equity(ROE), Profit Margin(PM), Return on Deposits(ROD), Return on Shareholder Capital(ROSC), and Net Operating Margin(NOM). The findings of this research show that Islamic Banks is more profitable than Conventional Banks.

Hadriche, Manel (2015) compare and identify the determinants of the performance for Islamic Banks with Conventional Banks in GCC countries from 2005 to 2012. This research using CAMEL test with a sample of 71 Conventional Banks and 46 Islamic Banks that operates in GCC region from 2005 to 2012. The findings of this research show that regarding profitability, Islamic Banks are on average more profitable than Conventional Banks.

Siraj, K K and Pillai, P Sudarsanan(2012) review and compare the performance of Conventional Banks and Islamic Banks operating in GCC region during 2005 to 2010. The study selected six Islamic Banks and six Conventional Banks. The performance indicator that used are OER, NPR, ROA, ROE, EOA, operating expense, profit, assets, operating income, deposits, and total equity. The findings of this research show that Islamic Banks have better performance and more equity financed than Conventional Banks.

Sehrish, Saba(2012) compare the financial performance of Islamic Bank and Conventional Bank in Pakistan from 2007 to 2011. To measure performance, the author test eight sample banks with six ratios, which are ROA, ROD, AU, OE, EQL, and IMLGL. The findings of this research show that Islamic Banks are less risky regarding dealing with loans and less efficient in expense management compared to Conventional Banks, but there is no significance difference has been found in the profitability ratios. Overall, Islamic Bank's performance found satisfactory.

Wasiuzzaman, Shaista and Umadevi Nair Gunasegavan(2013) analyze the difference in bank characteristics of Islamic and Conventional Bank in Malaysia, concerning profitability, capital adequacy, liquidity, operational efficiency, and asset quality. The total of nine Conventional Banks and five Islamic Banks are considered in this research over the period of 2005 to 2009. The findings of this research show that there is no significance difference concerning profitability between Conventional Bank and Islamic Bank.

Ben Selma Mokni, Rim, Rachdi, and Houssem(2014) study that type of bank is generally more profitable in North Africa(MENA) and Middle Eastern region. This study covers a sample of 15 Conventional Banks and 15 Islamic Banks for the period 2002 to 2009. The findings of this research show that Islamic Banks make relatively higher profits.

Fayed, Mona Esam(2013) to analyze and compare the performance of Islamic and Conventional Banks in Egypt to find out which type of bank is performing better than the other. In this research, three Islamic Banks and six Conventional Banks were used during 2008 to 2010. Financial ratios that used to measure the performance of both bank are profitability, liquidity, and credit risk, and a model "Bank-o-meter" to measure the solvency. The findings of this research show that Islamic Bank is significantly higher regarding profitability, liquidity, credit risk management, and also solvency.

Milhem, Maysa'a Munir and Istaiteyeh, Rasha M S(2015) investigates the performance of Islamic Banks versus Conventional Banks in Jordan over the period 2009 to 2013 using financial ratio. In this research, a total of 13 Conventional Banks and 3 Islamic Banks are considered. There is total of 13 financial ratios to measure the performance of both banks regarding profitability, liquidity, risk and solvency, and efficiency. The findings of this research show that there is no significant difference in profitability ratios.

All these eight papers study Islamic Banking profitability, some of them not just measure and compare Conventional Bank to Islamic Bank with only profitability ratios, but also efficiency, solvency, liquidity, and also solvency. There are 6 out of 8 studies that used financial ratios as their method to measure profitability. Financial ratio is a standard tool for measuring the profitability of Islamic Banks, many of the previous studies conduct a research using similar input and output variable. The studies that used financial ratios as profitability measurement are: Olson and Zoubi(2008); Siraj, K K and Pilai, P Sudarsanan(2012); Sehrish, Saba(2012); Wasiuzzaman, Shaista and Umadevi Nair Gunasegavan(2013); Fayed, Mona Esam(2013), and Milhem, Maysa'a Munir and Istaiteyeh, Rasha M S(2015). Hadriche, Manel(2015) used CAMEL test and Ben Selma Mokni, Rim, Rachdi, and Houssem(2014) used an Up-to-date econometric technique in measuring the profitability of Islamic Bank. Below is summary of previous studies about profitability.

Previous Research Regarding Islamic and Conventional Bank's Performance

There are many researches that compare the performance of Islamic and Conventional Bank. Some of the researches state that Islamic Bank is more profitable than Conventional Bank(Olson & Zoubi, 2008; Manel Hadriche, 2015). Both research are conducted in GCC region. Using 26 financial ratios, including profitability, efficiency, asset-quality, liquidity, and risk ratios, and with total of 141 Conventional Banks and 96 Islamic Banks observed, Olson & Zoubi(2008) found that Islamic Bank is more profitable than Conventional Bank but not as efficient as Conventional Bank. Manel Hadriche(2015) with total of 71 Conventional Banks and 46 Islamic Banks observed, found that Islamic Bank is more profitable and lqiuid than Conventional Bank, the performance of Islamic Bank is also affected by bank size, operating cost, inflation, and GDP growth.

While Olson & Zoubi and Manel Hadriche state that there is significance difference between Islamic and Conventional Bank, there are also researches found that there is no significance difference between them(Saba Sehrish, 2012; Wasiuzzaman & Nair Gunasegavan, 2013; Milhem Maysa'a Munir & Istaiteyeh, 2015). In Pakistan where Islamic Banks is still new, Saba Sehrish(2012) compare Islamic Bank to well established Conventional Banks. By using profitability, efficiency, and credit risk ratio, they found that there is no signifiance difference between Islamic and Conventional Bank in term of profitability. Milhem Maysa'a Munir & Istaiteyeh(2015), within 5 year research period in Jordan, found that there is no significance difference in profitability, but there are significance difference in liqudity where Islamic Banks indicate higher liqudity and risk &solvency where Islamic Banks are less risky.

All these research may have different result due to differences in method, country, and research period. Based on previous sub-chapter, most of the research shows that there are significance difference found and Islamic Banks are more profitable than Conventional Bank. Islamic Bank's principle might be different from Conventional Banks, Islamic Banks use risk-sharing and prohibit *riba* while Conventional Banks uses profit-maximization. However, since both Islamic and Conventional Banks work in same environment, it is likely possible to differentiate its financial characteristics. Besides there is still thin literature of Islamic bank study in Indonesia, this research aims to study whether Islamic Banks in Indonesia perform better or are more profitable than Conventional Bank.

Profitability Ratio Performance Determinants

In order to know the determinants of banking financial performance, previous researches(Alkassim, 2005;Bashir, 2000) shows that the important indicators that usually used as dependent variable are ROA andROE to know the financial performance of banking industry. Bashir(2000) found that the profitability of Islamic Bank is related to capital and loan(financing) positively where it is also consistent with their previous studies. If the capital and loan is high, Islamic Bank will be more profitable consequently. In GCC region, Alkassim(2005) found that the ROA has positive coefficients with total assets and total expenses for Islamic Bank.

Based on the previous researches, the researcher will use panel data regression analysis and the variables that will be used are ROA, ROE, and additional of PM, ROD and NOM as dependent variables and Total Assets, Total Customer Deposit, Interest Income, Interest Expense, and Total Loan as the independent variables. In order to know how much the impact of the independent variable to the dependent variable of financial performance of Islamic Bank and Conventional Bank in Indonesia, the research used dummy variables to distinguish the performance for each type of bank where 1 is for Islamic Bank and 0 is for Conventional Bank. Below is the table for description of the variables that used for panel data regression analysis.

Variables	Description
ROA(Dependent)	The Return on Total Assets of Bank i in year t
ROE(Dependent)	The Return on Equity of Bank i in year t
PM(Dependent)	The Profit Margin of Bank i in year t
ROD(Dependent)	The Return on Deposit of Bank i in year t
NOM(Dependent)	The Net Operating Margin of Bank i in year t
Total Assets/TA(Independent)	The Total Assets of Bank i in year t
Total Customer Deposit/TCD(Independent)	The Total Customer Deposit of Bank i in year t
Interest Income/II(Independent)	The Interest Income of Bank i in year t
Interest Expense/IE(Independent)	The Interest Expense of Bank i in year t
Total Loan/TL(Independent)	The Total Loan of Bank i in year t
Bank Type(Dummy)	A dummy for Islamic Bank (1) and Conventional Bank (0)

Methodology

Research Benchmark
This research method used "Using accounting ratios to distinguish between Islamic and Conventional Banks in the GCC region" by Olson & Zoubi in 2008 as the benchmark paper since the method that they used is quite easy to understand and that most accounting ratios are similar for both Conventional and Islamic Banks. The computation of this research is based on the balance sheet and income statement of all Conventional Bank and Islamic Bank for each year from 2004 to 2014. The balance sheet and income statement of each type of bank is analyzed using descriptive statistic and significance test by Mann-Whitney method to know if there is a difference between Conventional Banks and Islamic Banks by its 5 profitability ratios, which are ROA, ROE, PM, ROD, and NOM. The calcuation of this test is using 5% significance level.

Research Design
The researcher has six major steps, which are Problem Identification where it will provide the problem identification to determine the research objectives, Literature Review that used to get the information needed, Hypothesis that generated by analyzing research that comparing Conventional Bank and Islamic Bank, Data Collection, Data Calculation and Analysis, and Conclusion and Recommendation.

Data Collection
The variable that used is profitability ratios to compare the difference between Conventional Bank and Islamic Bank, so the researcher needs annual financial report of each bank within 11 years period. The annual financial report that needed is Balance Sheet and Income Statement of each bank in Indonesia.

Year	Conventional Bank	Islamic Bank	IBU
2004	126	3	13
2005	125	3	15
2006	105	3	16
2007	106	3	20
2008	112	5	20
2009	109	6	21
2010	111	11	22
2011	109	11	23
2012	109	11	24
2013	109	11	21
2014	107	11	22
Total	**1228**	**78**	**217**

Data Analysis
This research uses Financial Ratio, Descriptive Statistics, and Mann-Whitney test to analyze the data that had been collected. The profitability ratios that used are:

1. Return on Assets (ROA)

$$ROA = \frac{Net\ income}{Average\ total\ assets}$$

2. Return on Equity (ROE)

$$ROE = \frac{Net\ income}{Average\ stockholder's\ equity}$$

3. Profit Margin (PM)

$$PM = \frac{Net\ income}{Operating\ income}$$

4. Return on Deposit (ROD)

$$ROD = \frac{Net\ income}{Average\ total\ customer\ deposit}$$

5. Net Operating Margin

$$NOM = \frac{Operating\ profit}{Intereset\ income}$$

6. Total Asset
7. Total Customer Deposit
8. Interest Income
9. Interest Expense
10. Total Loan

After calculating all the five profitability ratios for each bank from 2004 to 2014, the calculation proceeds with descriptive statistics to know the mean score, median score, and standard deviation for each ratio from 2004 to 2014. After descriptive statistics, the calculation proceeds with Mann-Whitney test to find out whether there are significance differences between Conventional and Islamic Bank's performance for each ratio from 2004 to 2014. After Mann-U Whitney test, the calculation proceeds with Panel Data Regression to find out which variable has the most impact to the profitability ratio.

Econometric Specification

To test the relationship between profitability ratios and banking account determinants stated in the previous sub-chapter, here is estimated linear regression model:

$$Yit = \beta iX1it + \beta iX2it + \beta iX3it + \beta iX4it + \beta iX5it + \varepsilon it$$

Where

- Y_{it} is dependent variable where i =entity and t = time
- β is coefficient for the independent variable
- X1, X2, X3, X4, X5 represent the independent variables
- ε_{it} is the error term

Research Result

Summary of Mann-U Whitney Test Result

The summary of calculation result between Conventional Bank and Islamic Bank is shown in the table below. There are five ratios that used in this research, which are ROA, ROE, PM, ROD, and NOM. The calculation method is using descriptive statistics to find out the mean, median, and standard deviation while to find out the significance difference between Conventional Bank and Islamic Bank, the researchers used Mann-Whitney test.

	ROA	ROE	PM	ROD	NOM
2004	C	I	I		C
2005	C	C	I		C
2006	C	I	C	I	C
2007		C	I	C	C
2008		I	C	C	C
2009		I	I	C	C

2010		I	I	I	
2011		I	I	I	
2012	I	I	I	I	
2013	I	I	C	I	
2014		I	I	I	

Note I : Average score of Islamic Bank statistically significantly higher than Conventional Bank
C : Average score of Conventional Bank statistically significantly higher than Islamic Bank

Based on the table above, each ratio shows that there are differences between Conventional Bank and Islamic Bank even though it is not occurred in each year. Conventional Bank is mostly having higher mean and median score than Islamic Bank in the year 2004 to 2008 and the ratio that shows Conventional mean score is higher than Islamic Bank is all the ratio which are ROA, ROE, PM, ROD, and NOM that variates through the year. Islamic Banks also shows good performance and starting from 2009, Islamic Bank have better performance than Conventional Bank in ROA, ROE, PM, and ROD while in NOM Islamic Bank's performance is worse than Conventional Bank in the year 2004 to 2009 while in the year 2010 to 2014 Islamic Bank's performance shows no significance difference with the Conventional Bank which mean that both bank's performance is nearly the same. The phenomenon that interesting is that it is also proved by the mean score trend, wherein all of the five profitability ratios that used in this research, Islamic Bank shows an increasing trend while Conventional Bank shows a decreasing trend.

Summary of Overall Mean Differences Result

The summary of overall mean differences in all ratio is shown in the table below.

Ratio	ROA		ROE		PM		ROD		NOM	
Bank Type	Conv.	Islamic	Conv.	Islamic	Conv.	Islamic	Conv.	Islamic	Conv.	Islamic
Mean	0.017	0.013	0.467	0.759	0.990	0.881	-2.641	-1.711	0.388	-0.166
t-stat	0.747		-0.833		0.547		-0.269		3.049	
t critical two-tail	1.976		1.975		1.978		1.976		2.014	

Based on the table above, significance difference between Islamic Bank and Conventional Bank found only in NOM, where t-stat(3.049) is higher than t critical two-tail(2.014) showing that the overall NOM mean of Conventional Bank is higher than Islamic Bank. The rest profitability ratio shows that there is no significant different between Islamic Bank and Conventional Bank.

Summary of Panel Data Regression Analysis Result

Below shows the summary of panel data regression result.

Dependent	ROA		ROE		PM		ROD		NOM	
Bank Type	Conv.	Islamic	Conv.	Islamic	Conv.	Islamic	Conv.	Islamic	Conv.	Islamic
TA	0.178	0.039*	0.099**	0.004*	0.812	0.029*	0.000*	0.410	0.028*	0.583
TCD	0.534	0.256	0.077**	0.192	0.660	0.122	0.000*	0.000*	0.176	0.062**
II	0.011*	0.094**	0.765	0.866	0.000*	0.000*	0.000*	0.142	0.000*	0.004*
IE	0.030*	0.005*	0.008*	0.426	0.007*	0.719	0.002*	0.242	0.001*	0.013*
TL	0.772	0.005*	0.000*	0.776	0.233	0.088**	0.054**	0.010*	0.268	0.027*

Note (+) : Affecting the dependent variable positively

(-) : Affecting the dependent variable negatively

(*): Significant at 5% significance level

(**):Significant at 10% significance level

Based on the table above, there is at least 1 predictor that significance at 5% significant level for each dependent variable for each type of bank. In ROA, for Islamic Bank, Total Asset, Interest Expense and Total Loan are significance at 5% signicant level and Interest Income is significance at 10% significant level, while for Conventional Bank, there is only 2 predictors that significance at 5% significant level which are Interest Income and Interst Expense. In ROE, for Islamic Bank, Total Asset is the only predictor that significance at 5% significant level, while for Conventional Bank, Interest Expense and Total Loan is significance at 5% significant level and Total Asset and Total Customer Deposit are significance at 10% significant level. In PM, for Islamic Bank, Total Asset and Interest Income are significance at 5% significant level and Total Loan is significance at 10% significant level, while for Conventional Bank, Interest Income and Interest Expense are significance at 5% significant level. In ROD, for Islamic Bank, Total Customer Depoist and Total Loan are significance at 5% significant level, while for Conventional Bank, Total Asset, Total Customer Deposit, Interest Income, and Interest Expense are significance at 5% significant level and Total Loan is significance at 10% significant level. In NOM, for Islamic Bank, Interest Income, Interest Expense, and Total Loan are significance at 5% significant level and Total Customer Deposit is significance at 10% significant level, while for Conventional Bank, Total Asset, Interest Income and Interest Expense are significance at 5% significant level. From there, we can see that for Conventional Bank Interest Expense is a good predictor since that is the only independent variable that always significant for all dependent variable, however for Islamic Bank, there is no predictor that always significant for all dependent variable.

Conclusion

The result of data calculation in the previous chapter, based on the descriptive statistic and Mann-U Whitney test, shows that Islamic Bank proved that it have a great potential to boost Indonesia's financial market. Islamic Bank shows incredible performance throughout research period started from 2004 to 2014. Using five profitability ratios and an average of 110 Conventional Banks and 25 Islamic Banks a year, we find that Islamic Bank is more profitable than Conventional Bank in four out of five profitability ratios. Looking at the result of descriptive statistics, the mean score of Islamic Bank is not as good as Conventional Bank for each ratio from 2004 to 2008.

In ROA, the mean score of Conventional Bank is better than Islamic Bank from 2004 to 2006, this happens because there were some IBUs that have negative net income that affect the ROA mean score. In ROE, the mean score of Conventional Bank is better than Islamic Bank in 2005 and 2007. In PM, Islamic Bank's mean score is higher than Conventional Bank in 2006 and 2008. In ROD, the mean score of Conventional Bank is better than Islamic Bank from 2007 to 2009 and in NOM, the average mean score and a median score of Conventional Bank is better than Islamic Bank from 2004 to 2009. However, starting from 2009, Islamic bank started to show its potential, especially from the ROE and ROD where Islamic Bank always have better mean score than Conventional Bank from 2008 to 2014 and 2010 to 2014 respectively. In ROA, Islamic Bank's mean score of Islamic Bank is higher than Conventional Bank in 2012 and 2013. Islamic Bank's PM mean score is also higher than Conventional Bank from 2009 to 2012 and 2014. However, in NOM, Islamic Bank still not having a better result than Conventional Bank from 2010 to 2014 even though their mean score increased from early research period. Islamic Bank keeps increasing their profitability performance, and its mean score began to equal and even more than Conventional Bank.

The Hausman test shows that random effect model is better than fixed model for ROE, ROD, and NOM. The random effect model shows that all of the independent variable are significant predictor for both Islamic Bank and Conventional Bank's financial performance, however the fixed effect model shows that only TA, II, IE, and TL are significant predictor for both Islamic Bank and Conventional Bank's financial performance. Overall, the result of panel data regression shows that all of independent variables that used are significant variates for both Conventional and Islamic Bank, however some independent variables are only good predictor for one dependent variable but not for others. In Conventional Bank, there is one predictor that always significant for each dependent variables, which is Interest Expense and it is affecting all the ROA, ROE, PM, ROD, and NOM negatively.

Recommendation

Looking at the result of Mann-Whitney test, from all of the five profitability ratios, Islamic Bank needs to improve their Net Operating Margin(NOM) because it is the only profitability ratio that Islamic Bank haven't gained better result than Conventional Bank. Based on the ratio calculation, it means that Islamic Bank needs to increase their operating profit to gain more earnings than Conventional Bank, whether they increase their income or decrease their expense. The result of this research might be utilized by Islamic Banks to show the public that the profitability of Islamic Bank can compete with Conventional Bank.

For further research, the researcher suggests to:

- Expand the scope of the research to make comparison between Islamic Banks in Indonesia and Islamic Banks in another country such as Malaysia where the Islamic Bank is much more developed than Indonesia
- The financial ratios that will be used can also not just from the profitability ratio, but also efficiency, liquidity, etc.

References

Alkassim, F. (2005). *The Profitability of Islamic and Conventional Banking in the GCC Countries: A Comparative Study.* Bangor, UK: University of Wales.

Ascarya, & Yumanita, D. (2005). Bank Syariah: Gambaran Umum. *Bank Indonesia – Pusat Pendidikan dan Studi Kebanksentralan (PPSK).*

Bashir, A. H. (2000). Assessing the Performance of Islamic Banks: Some Evidence from the Middle East. ERF's 8th Annual Meeting. Amman. Retrieved on March 8 2016 from http://www.luc.edu/orgs/meea/volume3/revisedbashir.pdf

*Ernst & Young, (*2015), World Islamic Banking Competitiveness Report 2014-15, retrieved on January 3 2016 from http://www.ey.com/EM/en/Industries/Financial-Services/Banking---Capital-Markets/EY-world-islamic-banking-competitiveness-report-2014-15

Faturohman, T. (2013). An Examination of the Growth of Islamic Banking in Indonesia from 2003 to 2010. *Curtin's Institutional Research Repository.*

Fayed, Mona Esam. (2013). Comparative Performance Study of Conventional and Islamic Banking in Egypt. *Journal of Applied Finance & Banking*, 3(2): 1-14.

Hadriche, Manel. (2015). Banks Performance Determinants: Comparative Analysis between Conventional and Islamic Banks from GCC Countries. *International Journal of Economics and Finance.*

Hidayat, Sutan Emir, & Muhamad Abduh. (2012). Does Financial Crisis Give Impacts on Bahrain Islamic Banking Performance? A Panel Regression Analysis. *International Journal of Economics and Finance*, 4(7): 79-87.

Indonesia-Investments, (2014), Islamic Finance in Indonesia: Sharia Banking is Large Untapped Potential, November 7, retrieved on December 27 2015 from http://www.indonesia-investments.com/news/todays-headlines/islamic-finance-in-indonesia-sharia-banking-is-large-untapped-potential/item2592

Milhem, Maysa'a Munir and Istaiteyeh, Rasha M S. (2015). FINANCIAL PERFORMANCE OF ISLAMIC AND CONVENTIONAL BANKS: EVIDENCE FROM JORDAN. *Global Journal of Business Research*, 9(3): 27-41*.*

Mokni, Rim Ben Selma, & Rachdi, Houssem. (2014). Assessing the bank profitability in the MENA region. *International Journal of Islamic and Middle Eastern Finance and Managemet*, 7(3): 305-332.

Olson, D., & Zoubi, T. (2008). Using accounting ratios to distinguish between Islamic and Conventional Banks in the GCC region. *The International Journal of Accounting.*

Sehrish, Saba. (2012). Financial Performance Analysis of Islamic Banks and Conventional Banks in Pakistan: A Comparative Study. *Interdiscplinary Journal of Contemporary Research in Business*, 4(5).

Siraj, K. K., & Pillai, P. Sudarsanan. (2012). Comparative Study on Performance of Islamic Banks and Conventional Banks in GCC region. *Journal of Applied Finance & Bankin*, 2(3): 123-161.

Sole, Juan. (2007). Introducing Islamic Banks into Conventional Banking Systems. *IMF Working Paper.*

The economist, (2014), The market for Islamic financial products is growing fast, September 13, retrieved on December 24 2015 from http://www.economist.com/news/finance-and-economics/21617014-market-islamic-financial-products-growing-fast-big-interest-no-interest

Wasiuzzaman, Shaista, & Gunasegavan, Umadevi Nair. (2013). Comparative study of the performance of Islamic and conventional banks. *Humanomics*, 29(1): 43-60.

Wasiuzzaman, Shaista, & Gunasegavan, Umadevi Nair..(2015). Statistik Perbankan Indonesia, (Juni). Jakarta. Otoritas Jasa Keuangan.