INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

THE DETERMINANTS OF BANK MARGIN IN INDONESIA: A COMPARISON BETWEEN ISLAMIC AND CONVENTIONAL BANKS

BY

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A dissertation submitted in partial fulfillment of the requirement for the degree of Master of Economics

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ABSTRACT

Most studies on bank margin determination concentrate on conventional banks and the cross-sectional approach. Thus, this study employs a time series approach under the dealership framework of Ho and Saunders (1981) to examine the relationship between an Islamic bank margin and its determinants, namely default risk of financing, interest rate volatility, liquidity risk, capital base, implicit return, opportunity cost of bank reserves and management quality. Furthermore, we compare the margin behaviour of Islamic banks with that of conventional banks in a dual banking system, namely the Indonesian market. We make use of the autoregressive distributed lag (ARDL) bounds testing approach to inspect the cointegration between bank margin and its determinants. Besides, it is suitable for small sample data, as this approach does not need pre-testing of the integration property of the variables under study, thus it can be applied directly irrespective of whether the underlying regressors are $I(0)$, $I(1)$ or a mixture of $I(0)/I(1)$. We use monthly series data covering January 1996 to February 2006 (122 observations) of five sample banks, which are two Islamic banks and three conventional banks. The result confirms that there exists a long-run relationship between the Islamic bank margin and its determinants, thus providing support for the dealership approach and its extended versions. With respect to the interest rate volatility, as the volatility increases, the Islamic bank margin responds negatively, while that of conventional banks responds positively. This study also shows that the margin behaviour changes as the basis of bank operations changes from conventional to Islamic principles. An implication for policy makers is that the Islamic banks' performance will deteriorate with volatile market interest rates. Hence, as far as Islamic banks are concerned, under a dual banking system, the stability of interest rates is of great importance in developing the Islamic banking industry.

ملخص البحث

تركز معظم الأبحاث في تقرير فائدة البنك على البنوك التقليدية و طريق المقطع العرضي. ولذلك، قام هذا البحث باستخدام طريق المجموعة على ترتيب الوقت (time series) تحت هيكل ديلرسيب (Dealership) ل هو و ساؤردرس (Ho and Saunders) (1981) لامتحان العلاقة بين فائدة البنك الإسلامي وعوامل تقريرها نعني خطر التخلف عن إيفاء الدين في التمويل، وتطايرية معدل الفائدة، وخطر السيولة، وأسفل رأس المال، والربح الضمني، وثمن الفرصة لاحتياط البنك وجودة الإدارة. علاوة على ذلك، نقوم بمقارنة تصرف الفائدة للبنوك الإسلامية بالبنوك التقليدية على ثنائي النظام البنكي أي السوق الإندونيسي. ونختار استخدام طريق قياس الحدود ARDL (Autoregressive Distributed Lag) لفحص المشاركة التكاملية بين فائدة البنك وعوامل تقريرها، لمطابقته للعينة الصغيرة ولعدم الحاجة إلى إجراء الاختبار الأوّلي لخاصية تكامل المتغيرات في هذا البحث، ولذلك يمكن تطبيقه إلى أي ناكص تحتي $I(0)$, $I(1)$ أو تخليط $I(0)/I(0)$. ونستخدم مجموعة شهرية تشمل يناير 1996 إلى فبراير 2006 (122 ملاحظة) مأخوذة من خمسة بنوك تحتوي على البنكين الإسلاميين وثلاثة بنوك تقليدية. والنـتيجة تثبت وجود العلاقة على طويل المجال بين فائذة البنك الإسلامي وعوامل تقريرها، وهذا يجهز التأييد لطريق ديلرسيب (Dealership) ونسخته المعدلة. فنظرا إلى تطايرية معدل الفائدة نجد أنه عندما ازدادت التطايرية، استجابت فائدة البنك الإسلامي سلبيا، مع أن استجابة البنك التقليدي إيجابي. ويعرض هذا البحث أيضا أن تصرف الفائدة يتبادل مع تبادل أساس عملية البنك من القواعد التقليدية إلى القواعد الإسلامية. وهذا يضمّن عامل السياسة أن تنفيذ البنك الإسلامي فاسد في تطايرية سوق معدل الفائدة. ومن ثم، إن كان همّنا هو البنوك الإسلامية تحت ثنائي النظام البنكي، نؤكد أن ثبات معدل الفائدة مهمّ جدا لتنمية البنوك الإسلامية.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Master of Economics.

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Erwin Gunawan Hutapea

Signature………………………………… Date……………………...

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Affirmed by Erwin Gunawan Hutapea

………………………… ……………………….

Signature Date

To my wife, daughter and sons

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First, I would like to express my utmost thanks to Allah SWT, The Most Gracious, and The Most Merciful, who allowed me to complete this research paper. I would also like to take this opportunity to convey my profound gratitude to the following people whose help and support have made this work possible.

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May Allah SWT bless all who seek His blessings.

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INTRODUCTION

The importance of financial stability for aggregate economic activity has been increasingly emphasized (among others, Kaminsky and Reinhart, 1999; Hoggarth and Saporta, 2001; Borio, 2003). As the banking system is still a major part of the financial system, a knowledge of bank behaviour is an indispensable prerequisite for a clear understanding of the working of the financial sector as a whole. Indeed, for policy makers, the better the understanding of bank behaviour, the more effective the policy actions can be taken to ensure the soundness of the banking system in particular and of the financial system in general.

In a developing economy, like Indonesia, it is well known that the banking sector is still the dominant source of financing for the business sector. As capital markets are still emerging, the banking sector has a key role to play in allocating funds from savers to borrowers in the economy. Thus, it is important that the intermediary function of the banks be carried out at the lowest possible cost in order to achieve greater social welfare. Obviously, the lower the bank margin, the lower the social costs of financial intermediation will be (Maudos and Guevara, 2004: 2260).

As a part of the banking system, the rapid development of the Islamic banking industry in Indonesia over the last few years has promised optimism for further development that would benefit the Indonesian economy in general (Muljawan, 2005). In the last five years, the assets of Islamic banks in Indonesia have grown at an average rate of 70 percent per year. The number of commercial banks providing Islamic banking services significantly increased from five banks (two Islamic commercial banks and three Islamic banking units) in 2000 to 22 banks (three Islamic commercial banks and 19 Islamic banking units) by the end of 2005 (Bank Indonesia, 2006). From a regulatory point of view, the development would also pose challenges to the banking authority, as Islamic banks require a different set of banking regulations due to the unique nature of their business that differs from that of conventional banks.

Operating under a dual banking system,[1] Islamic banks face, to a certain extent, a troublesome situation. An unfavourable regulatory environment, limited options to cope with the lack or excess liquidity, and the asymmetric impact of changes of market interest rates on the assets side and liabilities side, are among the disadvantages faced by the Islamic banks. As a business entity, they should convey a convincing financial performance in order to maximize the shareholders' value. On the other hand, *rabbul maal* (depositors) of the Islamic banks require that their funds are managed in accordance to the Sharia rules and, at the same time, they demand a return that is comparable to the market rate notwithstanding how the banks are able to create it. Moreover, since banking is a highly regulated industry, the Islamic banks have to comply with a list of regulations which, in some cases, do not fit with the nature of their business. The undeveloped Islamic financial market creates another problem for the Islamic banks, namely inefficient liquidity management. As the Islamic instruments are limited in the market, in fact, the Islamic banks have to maintain high idle cash when the liquidity is in excess, and it is difficult to borrow when they lack liquidity. Consequently, it has been known that hitherto the products of Islamic banks are almost always more expensive than those of conventional banks.

The setting of the Indonesian banking system, where the Islamic banks operate alongside and compete with their conventional counterparts, gives a direct motivation

[1] Since the Banking Act No. 7/1992 was put into effect, the existence of the dual banking system has been officially acknowledged in Indonesia.

to study the Islamic bank margin.[2] In light of Ho and Saunders (1981), we are motivated to examine the effect of market interest rate volatility on the Islamic bank margin, and for comparative purposes on the conventional bank margin. Given that the Islamic banks have to follow the Sharia rules, which restrain the banks from instantaneously following the changes of market interest rates in their pricing mechanism, we expect that the Islamic bank margin will respond differently to interest rate volatility.

It is theoretically argued that the Islamic and conventional banks will determine their margins in a different way. In particular, the Islamic bank margin will only be known at the end of period, as return to depositors (deposit rate) is not predetermined, like profit,[3] and it reflects the performance of the bank's management.[4] For the conventional banks, the net interest margin will be set up front, as the deposit and credit rates are predetermined. Based on that understanding, in an attempt to study the determinants of the Islamic bank margin, we make use of the extended version of the dealership approach. In fact, to the best of my knowledge, no study has ever been conducted to compare the bank margin behaviours between Islamic and conventional banks.

To scrutinize the difference between the bank margin behaviours and to have a comparable picture between the Islamic banks and the conventional ones, a comparison between the two is made by choosing sample banks of the same asset size. We use a time series approach based on the monthly series from 1996:01 to 2006:02 of

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[2] In this study, the bank margin for Islamic banks might be equivalently viewed as the net interest margin for conventional banks, which is the ratio of net interest income to average earning assets.
[3] This refers to deposits under the profit and loss sharing contract (PLS) i.e., *mudarabah,* since it is the dominant contract on the bank's liabilities side. The same behaviour is applied to financing under PLS, however, as this is not the dominant contract on the bank's assets side, we do not argue based on it.
[4] Commonly, it will be known at the end of month since return to the *rabbul maal* will be paid on a monthly basis. Return to the *rabbul maal* is based on the agreed profit-sharing ratio and bank's income, which is a function of the assets quality.

a sample of five banks (two Islamic banks and three conventional banks). One of the sample banks was actually converted to an Islamic bank in the period under review, thus it is interesting to inspect the existence of a break in the bank margin behaviour. We employ the autoregressive distributed lag (ARDL) bounds testing approach to test the existence of the relationship between bank margin and its determinants. Once the cointegration is confirmed, we estimate the long-run relationship as well as the short-term dynamic, namely the equilibrium correction models (ECM).

This study is expected to give a better understanding on the behaviour of the Islamic bank margin. In particular, under a dual banking system, knowledge of how the Islamic bank margin responds to the interest rate volatility is valuable in avoiding the negative impact of interest rate policy on the Islamic banks. As far as the development of the Islamic banks is concerned, bank margin, as the major component of profit, plays a key role for the sustainability of the Islamic banks. Therefore, an understanding of the behaviour of the Islamic bank margin will benefit policy makers and market players as well.

On the other hand, given that the literature on the Islamic bank margin is hardly available, this study contributes to the development of the literature on the Islamic bank margin in particular and on Islamic banks in general. To a lesser degree, our study will complement the existing literature on bank margins in two aspects: it compares the margin behaviour of Islamic banks and the conventional banks; and it employs a time series approach, namely the ARDL cointegration technique, in the analysis of bank margins.

This paper proceeds as follows. In the next chapter, we outline some background information on the Indonesian banking system as well as the Indonesian Islamic banks. Chapter 3 reviews the existing literature and empirical evidence on the related topic. Chapter 4 describes the theoretical setting for the Islamic bank margin and the empirical approach. Chapter 5 discusses the empirical results. Lastly, chapter 6 concludes the paper and highlights some policy implications.

CHAPTER TWO

BACKGROUND

2.1. OVERVIEW OF INDONESIAN BANKING SYSTEM

It is well known that the banking sector is still the dominant source of financing for the business sector in Indonesia. As capital markets are still emerging, the banking sector has a key role to play in allocating funds from savers to borrowers in the economy. In June 2005, the ratio of banks' credit to GDP is 90.75 percent while the contribution of capital markets, measured by the ratio of emission value of stocks and bonds to GDP, is 40.48 percent. Given the dominant role of the banking sector, it is important that the intermediary role of the banks be carried out at the lowest possible cost in order to achieve greater social welfare.

According to the Banking Act No. 7/1992 as amended to Banking Act No. 10/1998, banks in Indonesia can be classified into commercial banks and rural banks.[1] Moreover, each type of bank can operate under a conventional framework, i.e., using interest-based contracts in its funding or lending activities, or under the Sharia principles, i.e., employing Sharia approved contracts in its funding or financing activities. Since the year 1992, the banking regulation has allowed the existence of the so-called dual banking system within the country. On the other hand, it is only from the year 1998 that the Banking Act has allowed the existence of a dual system bank within one bank.[2] Since then the Islamic banks have entered a new phase of development.

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[1] In December 2004, the number of commercial banks and rural banks was 133 and 2,164 respectively.

[2] It is important to distinguish between the dual banking system and the dual system bank. The first refers to the existence of the conventional banks alongside the Islamic banks within the country (in the

After the 1997 Asian Crisis, the government has implemented measures to restore public confidence in the domestic banking system. In 1999, by issuing a huge amount of government bonds, the government injected capital into the viable banks through the so-called Banking Recapitalization Programme. Continuously, the government and banking authority have persuaded domestic banks to merge or consolidate in order to achieve economies of scale in their operations. Because of this merger and consolidation programme, three big banks, namely Bank Mandiri, Bank Permata, and Bank Danamon, were established from a number of banks. We present the current structure of the domestic banking industry in terms of assets, deposits, and credits distribution in table 2.1.

Table 2.1

Distribution of Assets, Deposits, and Credits among Top 5 Banks and Provinces
(As per December 2004 and in trillion IDR)

	Assets		Deposits		Credit	
	Outstand.	**Portion**	**Outstand.**	**Portion**	**Outstand.**	**Portion**
Banks						
Bank Mandiri	241.5	18.98%	170.0	17.65%	88.2	15.76%
Bank Central Asia	149.8	11.78%	131.6	13.67%	40.3	7.20%
Bank Negara Indonesia	136.3	10.71%	105.5	10.96%	58.8	10.51%
Bank Rakyat Indonesia	107.0	8.41%	81.3	8.44%	61.5	11.00%
Bank Danamon Indonesia	58.4	4.59%	40.4	4.19%	29.2	5.22%
Total		**54.47%**		**54.91%**		**49.69%**
Provinces						
DKI Jakarta			504.4	52.37%	288.9	51.63%
Jawa Timur			95.3	9.90%	52.4	9.37%
Jawa Barat			76.8	7.97%	43.6	7.80%
Jawa Tengah			46.7	4.85%	34.5	6.16%
Sumatera Utara			45.0	4.67%	25.9	4.64%
Total				**79.76%**		**79.60%**

Source: Bank Indonesia

macro sense), while the latter describes a conventional bank that has an Islamic division providing Islamic banking services to customers.

Should one look into the assets, deposits, and credits portion of the top five banks, one could verify that the Indonesian banking market is very concentrated. Even though the number of commercial banks operating within the country is 133 banks, more than 50 percent of assets and deposits, and almost 50 percent of credits of the industry, are from the top five banks. Once we scroll down the list to the top ten banks, the concentration ratio will be around 70 percent. Having such a high banking concentration, in fact, reveals that the systemic risk of the banking industry is concentrated on those few banks.[3] From another angle, based on regional concentration, Jakarta is the dominant source of deposits and user of credits, contributing more than 50 percent for both of the indicators. If we enlarge the list of the region, the banking activity in the country is concentrated in Java (which covers DKI Jakarta, Jawa Timur, Jawa Barat and Jawa Tengah) since more than 75 percent of deposits and almost 75 percent of credits lending are from these regions.

Recently, in the wake of the oil price shock, credit risk faced by domestic banks has increased as reflected in the increase of the Non Performing Loan (NPL). In specific, the NPL has increased from 5.8 percent in December 2004 to 8.9 percent in August 2005 (see table 2.2). Then it gradually decreased to 8.3 percent in December 2005. However, in general, the performance of the banking system was still maintained, as reflected in the return on assets (RoA) and net interest margin (NIM). Moreover, the intermediary role of banks was improving from 50 percent in December 2004 to 53 percent in December 2005 as reflected in the loan to deposit ratio (LDR). This was the result of the increase in credit outstanding from IDR595 billion in December 2004 to IDR730 billion in December 2005. Importantly, the

[3] In fact, as the importance of risk-based supervision has been increasingly emphasized by international supervisory agency, since year 2002 Bank Indonesia has conducted the so-called on-site supervisory presence (OSP) to seven banks which are termed as systemically important banks (SIB).

capital adequacy of the banks has been maintained at a sufficient level to absorb risks from their activities. We report a summary of bank indicators in table 2.2.

Table 2.2

Main Indicators of Indonesian Banking System

(Billion of IDR)

	Dec-04	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05
Assets	1,272	1,345	1,353	1,347	1,419	1,420	1,428	1,470
Deposits	963	1,011	1,016	1,047	1,078	1,071	1,091	1,128
Credits	595	664	678	702	715	720	722	730
Earning Assets	1,147	1,240	1,258	1,290	1,283	1,280	1,283	1,300
LDR	50.0%	53.1%	53.9%	54.5%	54.2%	54.8%	54.1%	53.2%
RoA	3.5%	2.9%	3.0%	2.8%	2.6%	2.7%	2.8%	2.6%
NPL	5.8%	7.9%	8.5%	8.9%	8.8%	8.4%	8.7%	8.3%
CAR	19.4%	19.5%	19.4%	18.9%	19.4%	19.4%	19.6%	19.5%
NII	6.3	6.1	5.7	6.0	5.9	6.0	6.2	6.2
NIM	0.55%	0.49%	0.45%	0.46%	0.46%	0.47%	0.48%	0.48%
Liq.Assets/Assets	14.9%	15.3%	13.9%	13.3%	12.7%	12.3%	14.3%	15.8%
OC/OI	76.7%	88.8%	95.0%	88.0%	90.0%	91.1%	90.9%	87.7%

Source: Bank Indonesia

2.2. HISTORY OF ISLAMIC BANKS IN INDONESIA

The history of Islamic banks in Indonesia can be traced back to 1990, when the conference of Majelis Ulama Indonesia (Indonesian Jurist Council) was held in Cisarua-Jawa Barat. The conference was motivated by the fact that many of Indonesian Muslims had refused to be served by conventional banks. To be precise, for them, interest amounts to *riba*. In view of that, the meeting came up with a proposition to establish an Islamic bank in the country to serve the needs of the *ummah*. Indeed, this conference should be seen as a milestone in Islamic resurgence in the area of economics, banking and finance in Indonesia.

Following the conference, many efforts have been made to put the idea into practice. It is important to note that, at the early stages, the *ulama* (Islamic scholars) and academicians were the initiators of the idea of the Islamic bank. However, the concept of the Islamic bank was still unfamiliar to bankers and regulators. Moreover, the existing banking regulation at that time, namely the Banking Act No. 14/1968, was unable to accommodate[4] the so-called Islamic bank to operate in the country.

From a regulatory point of view, it was the issuance of the new banking act, Banking Act No. 7/1992, that gave an opportunity to establish the Islamic banks. Having struggled on a long journey, on November 1992 the first Indonesian Islamic bank, Bank Muamalat Indonesia (henceforth BMI), was inaugurated. However, it is important to note that under the Banking Act No. 7/1992, BMI was actually recognized as *bank bagi hasil* (profit-sharing bank) rather than *bank syariah* (Islamic bank).[5] Of special note is the fact that the paid-in capital of the bank was originated from the public, which reflects that the bank belongs to the *Muslim ummah*. At that time, a campaign to raise capital for the bank was organized by issuing shares at nominal value @ Rp10,000.

A clear regulatory acknowledgment of the existence of the Islamic banks in the Indonesian banking system was first found in the Banking Act No. 10/1998 as an amendment to the Banking Act No. 7/1992. In the new Banking Act, it is stated that banks can operate in the conventional way (based on the interest rate system) or under the Sharia principles. It is also important to note that the new regulation allows a conventional bank to open a Sharia Branch Office with the aim of boosting development of the industry. Furthermore, after the establishment of the new Central Bank Act No. 23/1999, the importance of the Islamic banking industry was strengthened. In this new regulation, Bank Indonesia as the central bank is mandated

[4] Notice that the Banking Act No. 14/1968 recognizes interest as the only basis for banking operations.
[5] The terms such as "Islamic Bank", "Shari'a Bank", "Islamic Principle" or "Shari'a Principle" were never mentioned in the Banking Act No.7/1992. Fortunately, all of those terms are readily found in the Banking Act No. 10/1998 which amended the previous one.

to regulate, supervise and to develop the Islamic banks. The Act also gives authorization to Bank Indonesia to conduct its monetary policy based on the Sharia principles.

Besides the progress in the regulatory framework, the year 1999 is of special interest as some major events in the Islamic banking industry took place in this year. In November 1999, the second Islamic bank, namely Bank Syariah Mandiri, was established. It should be noted that the bank used to be known as Bank Susila Bhakti, which was formerly a conventional bank. Furthermore, in 1999 the first Islamic Division of a conventional bank was also opened, namely Bank IFI.

2.3. DEVELOPMENT OF THE ISLAMIC BANKING INDUSTRY

To know the Indonesian Islamic banks thoroughly, it is necessary to understand the institutional framework of the industry's market players. As the Banking Act No. 10/1998 was put into effect, providers of Islamic banking services can be classified into three institutions. They are as follows: Islamic commercial bank (full Islamic commercial bank); Islamic branch office of a conventional bank (the branch is opened through the establishment of Islamic Business Unit or Islamic Division at the head-quarters of the bank) and Islamic rural bank (*Bank Perkreditan Rakyat Syariah*-BPRS).

The year 1998 could be referred to as the starting point of the fast growth period in the history of the Indonesian Islamic banking industry. An apparent regulatory identification and support have promoted the confidence of market players and the public to make use of a new mode of banking services in particular and financial services in general. This evidence can be clearly seen from the growth of the industry in terms of institutions, offices and assets (see table 2.3 and figure 2.1).

Table 2.3

Number of Banks and Offices of Indonesian Islamic Banks

	1992	1999	2000	2001	2002	2003	2004	2005
Islamic Commercial Bank	1	2	2	2	2	2	3	3
Islamic Division	-	1	3	3	6	8	15	19
# of Offices	1	40	62	96	127	299	401	504
Islamic Rural Banks	9	78	78	81	83	84	86	92

Source: Bank Indonesia

Having made no significant progress in the period 1992 to 1998, in 1999 the number of institutions providing Islamic banking services increased to 81 (2 Islamic commercial banks, 1 Islamic Division and 78 BPRS) from 10 (1 Islamic commercial bank and 9 BPRS) previously. Moreover, the number of branch offices increased from one in 1992 to 40 in 1999. On the other hand, in terms of assets, we are able to verify that the industry had grown with the compounding average growth rate (CAGR) of 25.77 percent during the period 1992-1998. Then, in 1998-2005 the industry experienced a fast growing phase with a CAGR of 71.47 percent.

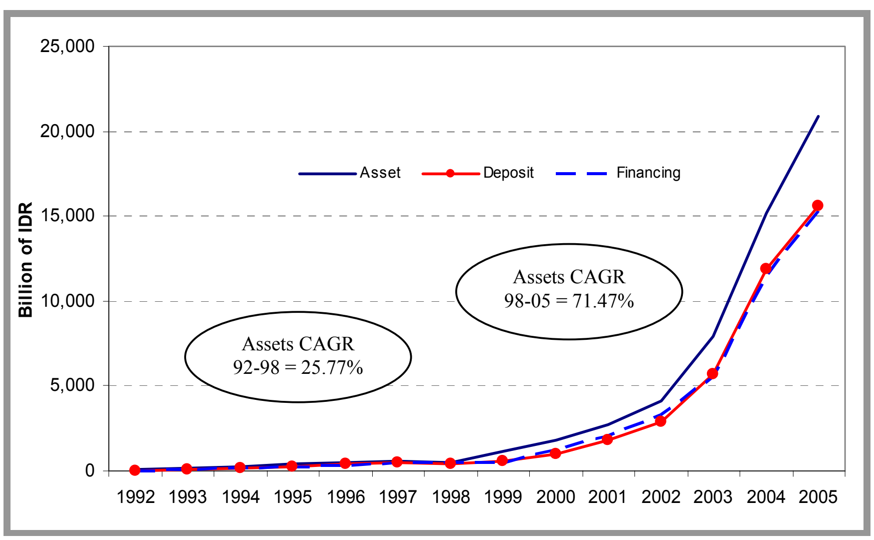

Figure 2.1. Development of Indonesian Islamic Banking Industry

In 2005, even though the macroeconomic circumstances were unfavourable, i.e., high inflation and interest rate, due to the oil price shock, assets of the Islamic banks still grew at 36.2 percent (see table 2.4). The growth was even higher compared to that of domestic banking industry, which was 15.5 percent. Subsequently, this has increased the penetration rate of Islamic banks, calculated as the ratio of their assets to total assets of the banking system, from 1.20 percent in 2004 to 1.42 percent in 2005. Moreover, the intermediary role of Islamic banks as measured by financing to deposit ratio (FDR)[6] is at a satisfactory level at 97.8 percent (compared to that of conventional banks of 53.2 percent). Additionally, it is important to note that non-performing financings (NPF)[7] is below 3 percent (compared to that of conventional banks of 8.3 percent) and this reveals the good quality of assets (Bank Indonesia, 2006).

Table 2.4

Some Indicators of Islamic Banks and Conventional Banks in Indonesia
(Billion of IDR)

Indicators	**2004**		**2005**		**Growth**	
	Isl. Bank	**Conv. Bank**	**Isl. Bank**	**Conv. Bank**	**Isl. Bank**	**Conv. Bank**
Assets	15,326	1,272,081	20,880	1,469,830	36.2%	15.5%
Deposits	11,862	963,106	15,582	1,127,940	31.4%	17.1%
Financings/Loans	11,490	559,470	15,232	730,200	32.6%	30.5%
FDR/LDR	96.9%	50.0%	97.8%	53.2%		
NPF/NPL	2.4%	5.8%	2.8%	8.3%		
Penetration						
Assets	1.20%		1.42%			
Deposits	1.23%		1.38%			
Financings	2.05%		2.09%			

Source: Bank Indonesia

Akin to the Islamic banking industry in other countries, the assets portfolio of Indonesian Islamic banks has been dominated by a class of fixed-return financing i.e.,

[6] This ratio is equivalent to loan to deposit ratio (LDR) in conventional banks.
[7] This ratio is equivalent to NPLs in conventional banks.