

## Analysis of Islamic Banks in Indonesia and Malaysia Using CAMEL

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### abstract

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Indonesia is a country with the largest Moslem population in ASEAN, but in the aspect of Islamic banking, Indonesia is still lacking, comparing with Malaysia. This study compares the financial performance of Islamic banking in both countries with a method called CAMEL. There are five aspects of this CAMEL method, approach, namely capital adequacy (CAR), asset quality (NPF), management quality (NPM), earnings (ROA, BOPO), and liquidity (FDR). The analytical tool used is a different t-test to find out whether there are differences or not between the financial performance of Indonesian and Malaysian shari'ah. From the results of the data analysis with the Independent t-test three variables namely (NPF, NPM, BOPO) showed significant differences, while the variables (CAR, ROA, and FDR) there were no significant differences between Indonesian and Malaysian banks.

Keywords: Financial performance, CAMEL, Indonesia, Malaysia.

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### 1. Introduction

Indonesia is the country with the largest Moslem population in ASEAN, not only in ASEAN but also in all over the world, around more than 85% of the total population of Indonesia are Muslims. This potential possessed should make Indonesia the center of the world Islamic finance development. Along with the development of the global economy, significant growth in the Islamic banking industry in the era of the ASEAN Economic Community (AEC) was also influenced by politics, culture, geography, defense and security (Wibowo, 2015). Although it is developing rapidly in terms of the shari'ah financial system globally, the condition of the sharia financial industry in Indonesia is still stagnant, in terms of asset growth and the market share of sharia financial Indonesia is still below other Muslim majority countries. Based on the 2019 Islamic Finance Development Report (IFDI) which is an index to measure the development of the sharia financial industry and also AS a barometer of the health level of the global sharia financial industry, Indonesia ranks 4th from 10th in the previous year. Malaysia is in first place, followed by Bahrain and the Arab Emirate Union. The three countries hold a portion of Islamic financial assets by 65% in 2018 and for Islamic financial industry assets in Malaysia to grow by 5% in 2018, while Indonesia grew by 3% from US \$ 2.4 trillion in 2017 to US \$ 2.5 trillion in 2018. Indicators assessed by IFDI include; quantitative growth, knowledge, governance, Corporate Social Responsibility (CSR) and public awareness.

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The tight competitiveness between Indonesian Islamic banking and other Muslim-majority countries, requires Islamic banks to understand of the weaknesses and strengths of their own companies in order to compete with other banking companies in order of reaching the targeted market. strengths and weaknesses will have an impact on the level of health of islamic banks, so it needs to be considered, maintained and improved to maintain the level of public confidence (novera, 2017). assessing the soundness of a bank is very necessary so that management knows what is the problem of a bank and to evaluate the bank's performance so far, and determine the decision taken as a follow-up in solving problems that occur. financial management and stakeholders use financial statements as an analytical tool in assessing the performance or level of soundness of banks, especially in this case is islamic banking.

Measurements to analyze the level of islamic bank's health and often used in previous research before is the camel method. The CAMEL method is an evaluation ranking system for assessing the performance of a bank. This method was first created by the Federal Financial Institutions Examination Board in the United States in November 1979, and then adopted by the National Credit Union Administration in October 1987 (Rastogi & Singh, 2017). Valuation in the CAMEL method is based on THE ratio analysis OF financial statements, there are five dimensions in this approach, namely Capital Adequacy, Asset Quality, Management Quality, Earnings, and Liquidity. Previous studies using the CAMEL method as a measurement of bank performance were carried out by Kaligis (2013), Rastogi & Sigh (2017), Jacob (2013), and Papatungan (2015).

## Literature review

### Capital Adequacy

The capital adequacy ratio measures the bank's capital position expressed as the ratio of capital to the assets, where it determines the bank's capacity to absorb unexpected losses (Rastogi & Singh, 2017). Assessment of capital adequacy uses the Capital Adequacy Ratio (CAR) as the main ratio or the Minimum Capital Adequacy Ratio (KPMM) (Papatungan, 2015). CAR shows how far the decline in bank assets can still be covered by available bank capital. CAR provisions of at least 8% are adopted by Indonesian banks which stipulate bank KPMM in BI Regulation No. 14/18 / PBI / 2012. CAR ratio is calculated by comparing total capital with Risk Weighted Assets (RWA):

$$CAR = \frac{\text{Capital}}{\text{RWA}} \times 100\%$$

Many studies use CAR ratios as ratio that illustrate the capital adequacy of a bank, one of which is Rizkiyah & Suhandak (2017) that compares the healthiness of banks in Islamic banks in Indonesia, Malaysia, UAE, and Kuwait. The results showed that, based on CAR ratios for the health level of the four countries, there were no significant differences. Other studies conducted by Wibowo (2014) compared the performance of Islamic banks in Indonesia, Brunei Darussalam and the Philippines with the same results, namely there were no significant differences in terms of CAR, ROA, ROE, and AGR ratios between the financial performance of Indonesia and Brunei Darussalam, while Philipines is the only one with no significant differences of CAR ratio. Some researchers also compared the performance of Islamic banks in Indonesia and Malaysia with the same results, namely Achan & Chariri (2014), Wibowo (2015) and Hadi et al., (2019).

Having a contrast to research conducted by Widyawati & Musdholifah (2018) which compared the financial performance of banks in ASEAN, namely Indonesia, Malaysia, Singapore, Thailand, and the Philippines in 2012-2016. This study obtained different results where based on capital indicators with CAR ratios, Indonesian banks were superior compared to the other four ASEAN countries. That still found any different results), based on that case the researcher proposes the following hypothesis:

**H1: There is a significant difference from the CAR value at the soundness of Islamic banks in Indonesia and Malaysia.**

### Asset Quality

Analyzing the quality of productive assets is also important even though in real banks have substantial capital. In measuring asset quality, there are several ratios that can be used, one of the ratios that describes the quality of assets of a bank is Non-performing Financing (NPF). NPF is a ratio that shows the percentage of the number of problem loans (with substandard, doubtful and loss criteria) with the total loans extended by banks. The higher of this ratio, the worse bank's credit quality, so that the number of problem loans increases and there is possibility of a bankrupt bank (novita et al., 2016). the formula to calculate npf is as follows:

$$\text{NPF} = \frac{\text{Total NPF}}{\text{Total Credit}} \times 100\%$$

A comparative study conducted by Wibowo (2015) states that there is no significant difference in the NPL indicator between the financial performance of banks in Indonesia, Malaysia and Thailand. Different from previous studies, research by Widyawati & Musdholifah (2018) states that the Indonesian state is better than Malaysia, Singapore, Thailand, and the Philippines in terms of the NPL ratio. Other research was also conducted by Rizkiyah & Suhandak (2017) where the NPL ratio in Indonesia, Malaysia, Kuwait was very good, while in the uae it was not. Based on these differences, the researcher proposes the following hypothesis:

**H2: There is a significant difference from the NPF value on the soundness of Islamic banks in Indonesia and Malaysia.**

#### **Management Quality**

In this study using a quantitative assessment in the form of a Net Profit Margin (NPM) ratio that can be projected with management aspects. The factor which is the reason for using NPMs to assess bank health is because this ratio is very closely related to management aspects, both in general management and risk management. Net income in general management aspects reflects the measurement of the strategy of the decision being carried out and in its technique is illustrated in the form of a recording, security and supervision system of the bank's operational activities in an effort to obtain optimal operating income. While net income in describing risk management reflects measurements of efforts to minimize liquidity risk, credit risk, operational risk, legal risk, and owner risk from bank operations to obtain optimal operating income (Wahid, 2015). The formula to calculating the NPM ratio is as follows Jacob (2013) and Papatungan (2016):

$$\text{NPM} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100\%$$

Several previous studies also used this ratio to measure the health level of banks between Indonesia and Malaysia. Research conducted by Achan & Chariri (2014) by taking samples of 31 pure Islamic banks with mixed Islamic banks (conventional banks that open Islamic banks) as many as 31 banks worldwide. This study states that judging from the NPM ratio show there is no significant difference between the performance of pure and mixed Islamic banks. This is in line with research conducted by Hadi et al., (2019) with a sample of PT. Bank Mandiri (Indonesia) and MayBank (Malaysia), also show there is no significant difference between Bank Mandiri's performance with MayBank and the NPM ratio. Different results occur in research conducted by Rifai (2013) comparing the performance of 3 Islamic banks in Indonesia, seen from the NPM ratio there are significant differences between the three banks. Based on this case, the researcher proposes the following hypothesis:

**H3: There is a significant difference from the value of NPM in the level of health of Islamic banks in Indonesia and Malaysia.**

#### **Earning Aspects (Rentability)**

The benchmark of assessing the healthiness of a bank is the bank's ability to make a profit. something need to understand, banks in their operational activities always suffer losses until the losses take up capital. If this happens, the bank cannot be said as a healthy one (Andrianto and Firmansyah, 2019: 387). The assessment in the aspect of profitability or earnings of a bank is based on the calculation of two ratios, including:

a. Ratio of Return on Assets to the total formula:

$$\text{ROA} = \frac{\text{Profit Before tax}}{\text{Total Assest}} \times 100\%$$

Research of these comparing banking performance in Indonesia with other countries was conducted by Widyawati & Musdholifah (2018), Azzahroh et al., (2016), and Hadi et al., (2019) which all stated that there were no significant differences in the performance of Indonesian banks with other countries seen from the ROA ratio, while research by Wibowo (2015), Achan & Chariri (2014), stated the opposite. The difference from the results of previous studies encourages researchers to propose a hypothesis as follows: H4a: There is a significant difference from the value of ROA on the level of islamic bank health in Indonesia and Malaysia.

b. Operating Expense Ratio to Operating Income (BOPO) with the formula:

$$\text{BOPO} = \frac{\text{Operational Expens}}{\text{Operational Income}} \times 100\%$$

In the BOPO ratio, the study of Widyawati & Musdholifah (2018), Hadi et al., (2019) stated that there are significant differences between the financial performance of banks in Indonesia and Malaysia. This is

in line with the study of Achan & Chariri (2014) where there are also significant differences between the financial performance of pure and mixed sharia banks around the world. based on that case,the researcher proposes the following hypothesis:

**H4b: There is a significant difference from the BOPO value in the health level of Islamic banks in Indonesia and Malaysia.**

#### Liquidity

The liquidity aspect in this study is represented by the Financial to Deposit Ratio (FDR) ratio. FDR is used to analyze the ability of banks to meet their obligations (Achan & Chariri, 2014). In conventional banks the FDR ratio is known as the LDR (Loan to Deposit Ratio) ratio. The calculation of ratio formula) is as follows:

$$\text{FDR} = \frac{\text{Total Financing}}{\text{Total Third Party Funds}} \times 100\%$$

Previous studies that used this ratio calculation were Widyawati & Musdholifah (2018), Achan & Chariri (2014), Wibowo (2015), and Hadi et al., (2019). The results of the four researchers stated that judging from the FDR ratio, there were significant differences in the performance of banks in Indonesia with other countries such as Malaysia, Thailand and other ASEAN countries, so the researchers put forward the following hypothesis:

**H5: There is a significant difference from the value of FDR on the soundness of Islamic banks in Indonesia and Malaysia**

## 2. Research Methods

This research is a quantitative study which is a scientific approach in managerial and economic decision making based on data that has been collected and then processed and analyzed into useful information Kuncoro, (2011). In this study, the type of comparative research is comparative research. The object of this study is the annual report (Annual Report) published by Islamic banking registered at the central banks of Indonesia and Malaysia. Indicators to measure the healthiness of shariabanking in the two countries use the CAMEL approach (Capital Adequacy, Asset Quality, Management Quality, Earnings, and Liquidity). CAMEL components were obtained from previous studies.

The population of this study is the banks that carry out their operational activities based on sharia principles and are registered in central banks in Indonesia and Malaysia. Sampling from the population of Islamic banking uses purposive sampling. Referring to the specified criteria, the number of samples taken and meeting the criteria is 24 Islamic banks, consisting of 12 Indonesian Islamic banks and 12 Islamic banks in Malaysia. The criteria used are as follows:

Therefore, there are several criteria in sampling this study as follows:

1. A central of general commercial bank in Indo and Malaysia.
2. The annual report can be accessed through the official banking page.
3. General syariah bank which publishing the annual report from 2014-2018.
4. The period in the bank's annual report ends on December 31.
5. Take the same amount of samples between the two countries.

Table 1. List of Research Samples

No	Country	The Name of The Islamic Bank	Code
1	Indonesia	PT Bank BRI Syariah	BRIS
2		PT Bank Syariah Mandiri	BSM
3		PT Bank BCA Syariah	BCAS
4		PT Bank BNI Syariah	BNIS
5		PT Bank Mega Syariah	BMGS
6		PT Bank Panin Dubai Syariah	BPDS
7		PT Bank Syariah Bukopin	BSB
8		PT Bank Muamalat Indonesia	BMUA
9		PT Bank Victoria Syariah	BVS
10		PT. Bank NTB Syariah	BNTBS

11		PT. Maybank Syaria Indonesia	BMSI
12		PT. Bank Tabungan Pensiunan Nasional Syariah	BTPNS
13	Malaysia	Affin Islamic Bank Berhad	AIBB
14		Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	ARBB
15		Bank Islam Hong Leong Berhad	BIHLB
16		Bank Islam Malaysia Berhad	BIMB
17		CIMB Islamic Bank Berhad	CIBB
18		HSBC Amanah Malaysia Berhad	HAMB
19		Kuwait Finance House (Malaysia) Berhad	KFHB
20		Maybank Islamic Berhad	MIB
21		OCBC Al-Amin Bank Berhad	OAABB
22		Public Islamic Bank Berhad	PIBB
23		RHB Islamic Bank Berhad	RIBB
24		Standard Chartered Saadiq Berhad	SCSB

### Data analysis technique

This researches are using descriptive analysis method with financial ratio analysis tool with CAMEL method and hypothesis testing with different tests. Different test or independent sample t-test is conducted to analyze data and compare the performance of Indonesian and Malaysian state banks.

### Financial Ratio Analysis with CAMEL Method

In this study, researchers used the CAMEL to measure the level of health of Islamic banks in Indonesia and Malaysia. CAMEL consisting of elements of Capital Adequacy, Asset Quality, Management Quality, Earnings, and Liquidity is proxied by ratios that describe each of these elements, including capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Net Profit Margin (NPF), Net Profit Margin (NPM), Return on Assets (ROA), Operating Costs to Operating Income (BOPO), Financial to Deposit Ratio (FDR).

The ratios are calculated on the annual financial statements published by the official banking sites in Indonesia and Malaysia which are the research samples. The annual report that was sampled was a 2014-2018 report and researchers did not convert currencies in one of the countries of the country studied because currency units had no effect in calculating the CAMEL ratio. Each CAMEL ratio is calculated for an average value of five years to be used as a comparative test variable in the level of soundness in the banks studied.

### Descriptive statistics

Descriptive research is research conducted using numerical and graphical methods to recognize patterns of a number of data of the data number, summarize the information contained in the data, and present the information in the desired form (Kuncoro, 2011: 26). According to Ghozali, (2016: 19) descriptive statistical analysis gives an overview of data measured by the average (mean), minimum, maximum, and standard deviation contained in the study, so that it can be used in comparative research between Islamic commercial banks in Indonesia and Malaysia).

### Hypothesis

Hypothesis testing for the comparison between Islamic banking in Indonesia and Malaysia will be carried out with the Independent t-test which is also called with the t-test different test. Hypothesis testing with this test was carried out by several previous researchers, including Hadi et al., (2019), Azzahroh et al., (2016), and Achan & Chariri (2014).

Independent t-test is used to show how far the influence of one independent variable individually in order to explain the dependent variable. According to Ghozali (2016: 64) t-test is used to determine whether two unrelated samples have different mean values or not. This testing method has been used in comparative analysis of commercial banks in Indonesia and Malaysia conducted by Azzahroh et al., (2016) and Hadi et al., (2019) as well as comparisons between pure and mixed Islamic banks throughout the world by Achan & Chariri (2014).

Decision making on research hypotheses is based on probability or significance values, provided that:

- If the probability is  $<0.05$ , then  $H_0$  is rejected or there is an average difference in the two samples or different variance.
- If the probability is  $> 0.05$ , then  $H_0$  is accepted or there is no average difference in the two study samples or the same variance.

### 3. Results and Discussion

Test results based on CAMEL's financial ratios show that in broad outline, there is no significant difference in the level of health of Islamic banking in Indonesia and Malaysia as seen from the average ranking of the six ratios for five consecutive years with the CAMEL method. This can be seen from table 2 as follows:

Table 2. Average CAMEL Financial Ratios of Bank Indonesia and Malaysia for the 2014-2018 period

No	Country	Code Bank	CAR	NPF	NPM	ROA	BOPO	FDR
1	Indonesia	BRIS	19,49	5,35	3,55	0,50	95,08	81,59
2		BSM	14,63	5,13	3,85	0,49	94,78	79,72
3		BCAS	30,87	0,39	4,52	0,88	89,00	90,03
4		BNIS	17,59	2,63	9,33	1,26	87,33	85,83
5		BMGS	20,85	2,67	5,15	1,04	93,86	93,15
6		BPDS	19,77	4,65	-18,67	-1,63	117,06	91,18
7		BSB	17,33	5,65	-1,10	-0,01	94,34	89,49
8		BMUA	12,92	5,15	1,25	0,49	98,29	85,56
9		BVS	18,12	6,56	-7,68	-1,03	112,54	91,47
10		BNTBS	33,10	1,24	21,29	3,79	70,90	94,46
11		BMSI	76,92	16,84	-19,52	-6,83	139,53	85093,01
12		BTPNS	29,50	1,42	18,59	7,28	74,36	94,27
13	Malaysia	AIBB	15,48	1,58	12,60	0,73	82,87	86,27
14		ARBB	19,84	0,92	2,24	0,16	71,26	79,77
15		BIHLB	14,82	0,93	20,12	1,16	73,36	80,82
16		BIMB	15,65	1,01	19,10	1,34	73,98	80,17
17		CIBB	16,46	0,91	17,55	1,03	77,11	86,32
18		HAMB	17,81	1,75	13,89	0,84	82,37	96,67
19		KFHB	26,34	6,67	7,62	0,46	95,27	83,34
20		MIB	18,89	0,79	18,39	1,11	75,38	91,01
21		OAABB	17,25	2,75	16,32	1,13	79,29	73,91
22		PIBB	14,81	0,67	17,99	1,04	76,39	80,07
23		RIBB	15,11	1,08	13,37	0,85	73,41	82,91
24		SCSB	20,08	0,77	5,98	0,38	92,00	99,66

Table 3. Statistics of Different Test Results

Group Statistics					
	Negara	N	Mean	Std. Deviation	Std. Error Mean
CAR	Indonesia	12	25,9242	17,30797	4,99638
	Malaysia	12	17,7117	3,31039	,95563
NPF	Indonesia	12	4,8067	4,28665	1,23745
	Malaysia	12	1,6525	1,68504	,48643
NPM	Indonesia	12	1,7133	12,49148	3,60598
	Malaysia	12	13,7642	5,73399	1,65526
ROA	Indonesia	12	,5192	3,28452	,94816
	Malaysia	12	,8525	,35856	,10351
BOPO	Indonesia	12	97,2558	18,66064	5,38686
	Malaysia	12	79,3908	7,56759	2,18457
FDR	Indonesia	12	7172,4800	24538,60354	7083,68468
	Malaysia	12	85,0767	7,46556	2,15512

Table 4. Independent t-test Test Results

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
CAR	Equal variances assumed	5,379	,030	1,614	22	,121	8,21250	5,08695	-2,33719	18,76219
	Equal variances not assumed			1,614	11,804	,133	8,21250	5,08695	-2,89148	19,31648
NPF	Equal variances assumed	2,483	,129	2,372	22	,027	3,15417	1,32962	,39670	5,91164
	Equal variances not assumed			2,372	14,320	,032	3,15417	1,32962	,30838	5,99995
NPM	Equal variances assumed	3,200	,087	3,037	22	,006	-12,05083	3,96774	-20,27943	-3,82224

	Equal variances not assumed			-3,037	15,439,008	-12,05083	3,96774	-20,48700	-3,61467
ROA	Equal variances assumed	4,924,037	-,349	22,730	-,33333	,95379	-2,31138	1,64471	
	Equal variances not assumed		-,349	11,262,733	-,33333	,95379	-2,42667	1,76000	
BOPO	Equal variances assumed	3,453,077	3,073	22,006	17,86500	5,81297	5,80963	29,92037	
	Equal variances not assumed		3,073	14,523,008	17,86500	5,81297	5,43939	30,29061	
FDR	Equal variances assumed	4,836,039	1,001	22,328	7087,40333	7083,68501	-7603,26022	21778,06689	
	Equal variances not assumed		1,001	11,000,339	7087,40333	7083,68501	-8503,68189	22678,48856	

### Capital Adequacy

Judging from the results of hypothesis testing with Independent t-test shows the average variable CAR of Indonesia amounted to 25.9242 and Malaysia 17.7117 with a significance level of 0.133. This proves that Indonesia is better in terms of capital compared to Malaysia, although seen from the statistics it is not a significant difference. The reason is the significance value > 0.05 so that H<sub>0</sub> is accepted, meaning that there is no significant difference seen from the CAR ratio between Indonesian and Malaysian banks.

This research conducted by Rizkiyah & Suhandak (2017) that compares the healthiness level of Islamic banks in Indonesia, Malaysia, UAE, and Kuwait. The results showed, based on the CAR ratio there were no significant differences from those four countries. Other research conducted by Wibowo (2014) stated that there were no significant differences between the financial performance of Indonesian and Philippine Islamic banks. The same results were found in the research of Achan & Chariri (2014), Wibowo (2015) and Hadi et al., (2019) who compared the performance of Indonesian and Malaysian Islamic banks with the same results, namely there was no significant difference between the financial performance of the two countries.

The greater value of CAR reflects the ability of banks to face the possibility of financial risks that possible to occur. The growth of Indonesian sharia banks in general has indeed increased. From the data collected, it can be seen that the capital aspect has increased annually. This shows that Indonesia General Bank is quite good in protecting customers and maintaining overall financial stability. Under the terms of the Islamic Financial Service Board (IFSB), the minimum capital adequacy ratio is 8%. From the data that has been obtained, the average CAR ratio of Indonesian and Malaysian Islamic banks over five years > 8%, so it can be concluded that in terms of the performance of capital in Indonesian and Malaysian Islamic banks are in very good criteria.

### Asset Quality

Based on the results of the hypothesis test with the Independent t-test that the asset quality variable which is proxied by the Non Performing Financing (NPF) ratio from the Group Statistics table shows the average NPF value of Islamic banks in Indonesia (4.8067) and Malaysia (1.6525). From this result, the difference is quite large, and the significance value of 0.027 is less than the critical limit of 0.05. This shows that there are significant differences in the NPF ratio of Indonesian and Malaysian Islamic banks.



NPF ratio is the ratio of problem financing to total financing provided by Islamic banking. The smaller of NPF ratio, the better of banks performance in managing credit given to their customers. Judging from the high average Indonesian NPF ratio, it reflects that Indonesian banks are experiencing problem of managing and collecting financing. Another factor that reflects the strengths of Islamic banking in Malaysia and Indonesia is the regulatory system in each country which greatly influences rapid growth of Islamic banks. The very rapid development of Malaysian Islamic banking is driven by the government's responsiveness and accommodating in providing a legal framework for bank operations (Majid, 2014).

#### **Management Quality**

In the management component which is proxied by the Net Profit Margin (NPM) ratio, the performance of Malaysian Islamic banks is better than Indonesia. This is reflected in the results of the Independent t-test where the average value for the NPM ratio of Indonesian Islamic banks is 1.7133 while for Malaysian Islamic banks is much greater at 13.764. Then a statistical test is performed to determine whether this difference in value is significant or not. From the analysis results obtained a significance value of 0.006 well below the critical limit of 0.05. It can be concluded that  $H_0$  is rejected because  $0.006 < 0.05$  means that there is a significant difference from the NPM ratios of Indonesian and Malaysian Islamic banks. This previous comparative studies such as Rifai (2013) comparing the performance of 3 Islamic banks in Indonesia, as seen from the NPM ratio there are significant differences between the three banks.

The low average value of Indonesian bank NPM implies that operating income is large, while net profit after tax is still quite low, this is due to the high operational burden of Indonesian banks. At Malaysian banks with high average NPMs, they reflect the efficiency of banks in minimizing operational costs to increase operating income. Even though Indonesia is the largest Moslem country in ASEAN, the development of Indonesian Islamic banking seems slow compared to Malaysia. Strong political support in Malaysia is driving the rapid shariah banking industry, for example in careful preparation in pioneering the sharia banking industry both in regulation and management. Being in Indonesia with a lack of political support from the government at the beginning of the pioneering of Indonesian Islamic banks made the system of regulation and banking management weak (Majid, 2014).

#### **Earning**

From the earning aspect, it is proxied by two ratios, namely Return on Assets (ROA) and the ratio of Operating Expenses to Operating Income (BOPO). ROA ratio reflects the ability of banks to generate profits by utilizing the capital invested in all bank assets. BOPO ratio shows how efficient banks are in managing their operational activities.

Judging from the results of the hypothesis test with Independent t-test showed the average Indonesian ROA variable was 0.5192 and Malaysia was 0.8525 with a significance level of 0.733. This shows that Indonesia is better in terms of capital compared to Malaysia, although seen from the statistics it is not a significant difference. The reason is the significance value  $> 0.05$  so that  $H_0$  is accepted, meaning that there is no significant difference seen from the ROA ratio between Indonesian and Malaysian banks. This finding was supported by previous researchers such as Widyawati & Musdholifah (2018), Azzahroh et al., (2016), and Hadi et al., (2019), all of them state that there were no significant differences in the performance of Indonesian banks with other countries (Malaysia, Singapore, Thailand and the Philippines) in terms of the ROA ratio.

In general, Malaysian banks are better than Indonesia, in terms of asset growth. Shariah banking assets in Malaysia are RM 350.8 billion (USD 116 billion), and control 21% of the market share (BNM Report, 2014). While Indonesia with total assets of Rp 104 trillion (USD 10.4 billion) has not reached 3.3% of its market share (BI Report, 2011).

In the BOPO ratio, Malaysian Islamic banks performed better than Indonesia. This is reflected in the results of the Independent t-test where the average value for the BOPO ratio of Indonesian Islamic banks is 97.2558 while for Malaysian Islamic banks is much greater at 79.3908. The greater the value of BOPO, the more inefficient the performance of a company. Then a statistical test is performed to determine whether this difference in value is significant or not. From the analysis results obtained a significance value of 0.006 well below the critical limit of 0.05. It can be concluded that  $H_0$  is rejected because  $0.006 < 0.05$  means that there is a significant difference from the BOPO ratio of Indonesian and Malaysian Islamic banks.

These findings are supported by research conducted by Widyawati & Musdholifah (2018), and Hadi et al., (2019) both of them state that there are significant differences between the financial performance of banks in Indonesia and Malaysia. This is in line with the study of Achan & Chariri (2014) where there are

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also significant differences between the financial performance of pure and mixed sharia banks around the world.

#### Liquidity

In the aspect of liquidity, the ratio of Financial to Deposit Ratio (FDR) is proxied. The FDR ratio reflects the ability of banks to pay withdrawals by customers using credit as a source of liquidity. The results of the hypothesis test with Independent t-test showed the average Indonesian FDR variable was 7172.48 and Malaysia was 85.0767 with a significance level of 0.339. This shows that Indonesia is better in terms of capital compared to Malaysia, although seen from the statistics it is not a significant difference. The reason is the significance value  $> 0.05$  so that  $H_0$  is accepted, meaning that there is no significant difference seen from the CAR ratio between Indonesian and Malaysian banks.

Judging from the FDR ratio with the average value of Indonesian banks which is higher than Malaysian banks, it shows that the performance of Indonesian banks in terms of liquidity is better than Malaysian banks. This is in line with research by Wibowo (2014), which states that the higher the FDR ratio, the better the level of liquidity. The ability of Indonesian banks to repay obligations to customers who have invested by withdrawing loans that have been given to debtors.

#### 4. Conclusions

Based on the results of tests conducted to analyze the financial performance of Indonesian and Malaysian Islamic banks, it can be concluded that:

1. Based on testing using the CAMEL method it is known that there is no significant difference between the performance of Indonesian and Malaysian Islamic banking as a whole.
2. Based on the average value of the results of the statistical test proved that the performance of Indonesian banks is better compared to Malaysia in terms of CAR, ROA, and FDR ratios. Whereas from the ratio of NPF, NPM, and BOPO Malaysia is better than Indonesia.
3. Based on the results of statistical calculations with hypothesis testing, it shows that the ratio of NPF, NPM, and BOPO has a significant difference between the performance of Indonesian and Malaysian Islamic banks. While the CAR, ROA, and FDR ratios indicate that there are no significant differences in the financial performance of Indonesian and Malaysian Islamic banks.
4. The opportunity of Indonesian Islamic banking is still very large to develop and improve its financial performance, seen from the potential of Indonesia, it is possible to compete with other countries.

Limitations in the study are: The sample in the study did not take from all Islamic banking in both countries and the variables used as indicators of comparative financial performance are only few.

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