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## COMPARISON OF FINANCIAL PERFORMANCE OF ISLAMIC AND CONVENTIONAL COMMERCIAL BANKS IN INDONESIA: FINANCIAL RATIO ANALYSIS

**Riska Anggraeni**

Politeknik Siber Cerdika Internasional, Indonesia  
ismaelanmaulani068@gmail.com

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### ABSTRACT

Public interest in using Islamic banking services is growing but remains limited in actual behavioral adoption. This study aims to analyze the determinants of public interest in Islamic banks through the Theory of Planned Behavior (TPB) framework, which includes attitude, subjective norms, and perceived behavioral control. A descriptive qualitative method was employed through in-depth interviews with 20 informants across three major cities. The findings reveal that although most respondents hold positive attitudes toward Islamic banking values, behavioral intention is not fully realized due to technical constraints, lack of social reinforcement, and perceived access difficulties. The integration of all three TPB components plays a crucial role in shaping and converting intention into actual usage. The study implies the need for public education, digital service enhancement, and social norm reinforcement to strengthen Islamic banking adoption. This research offers both theoretical and practical insights for policy development and behavior-based marketing strategies.

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### INTRODUCTION

The banking sector is one of the key pillars in the stability and economic growth of a country. In Indonesia, the banking system consists of two main types, conventional banks and Islamic banks, which operate side by side. The fundamental difference between the two lies in the operational principles used, with Islamic banks adhering to Sharia principles and being free from *riba* (interest). Although Islamic banks continue to experience growth, their market share still lags significantly behind conventional banks (Setiawan & Wulandari, 2022; Hidayat & Putri, 2021; Aziz et al., 2023). One of the frequently debated aspects is whether Islamic banks have a competitive financial performance compared to conventional banks. An objective assessment of financial performance can be made through financial ratio analysis, which is the most commonly used evaluation tool. Therefore, a comparative study is important to determine the competitive position of both types of banks quantitatively.

The growth of the Islamic banking industry in Indonesia has shown a positive trend in recent years, both in terms of assets, the number of customers, and service products. However, this growth has not kept pace with the dominance of conventional banks, which are structurally stronger and more experienced. Financial performance evaluation is an important indicator for measuring the efficiency, profitability, and stability of a financial institution. Financial ratios such as Return on Assets (ROA), Return on Equity (ROE), and Non-Performing Financing (NPF) are key analytical tools in comparing the performance of both types of banks (Pratama & Nugroho, 2020; Rahman & Sari, 2021; Widodo et al., 2022). This study will focus on financial ratio analysis as an objective and verifiable quantitative approach. Thus, this study is urgent to provide factual and empirical insights into the comparative performance of Islamic and conventional banks. Furthermore, the findings will contribute to decision-making for investors and regulators.

A key issue that often arises when comparing the performance of Islamic and conventional banks is the lack of a deep understanding of the operational structure and financing bases that differ. The financial ratios commonly used often fail to consider the differences in product characteristics and the risks of each banking system. For example, Islamic banks predominantly use a profit-sharing system, whereas conventional banks rely on an interest-based system. This causes the interpretation of profitability and efficiency ratios to be biased if not analyzed contextually (Putra & Ramadhan, 2021; Lestari & Hidayat, 2020; Sari et al., 2022). Additionally, some previous studies used limited and inconsistent data in terms of period or sample size. This inconsistency affects the validity and reliability of the research results. Therefore, an analytical approach that considers structural differences and relies on the latest data is needed.

This study is important because its findings can provide an empirical basis for decision-making in the development of the Islamic banking sector in Indonesia. Objective evaluation of financial performance is not only useful for the internal management of banks but also for regulators, investors, and the general public. In the context of market competition and strategic planning, information on the competitive position of Islamic and conventional banks is highly needed (Firdaus & Latifah, 2021; Nugraha & Akbar, 2020; Wahyuni et al., 2023). Without accurate data, public policies tend to be reactive and less effective. Furthermore, the need to promote financial inclusion based on Sharia values requires justification from the financial performance side. This study is expected to be a scientific and practical contribution that bridges the existing information gap. Therefore, the urgency of this study is strategic, theoretical, and applicable.

Several previous studies have compared the performance of Islamic and conventional banks, but the results show significant variation. Some studies conclude that conventional banks excel in profitability and efficiency, while Islamic banks are stronger in financing stability and lower credit risks (Siregar & Rahmat, 2021; Zulfikar & Hafiz, 2020; Rahmawati et al., 2022). However, many of these studies were conducted with limited data scope or used descriptive statistical approaches without significance testing. Most of them only used one or two financial ratios, so the results do not reflect a comprehensive picture. In the context of Indonesia, there have been few studies providing longitudinal and comparative analyses based on a consistent time series. This study aims to fill that gap with a more comprehensive approach, using several key ratios that represent various aspects of financial performance. Therefore, this study is relevant for updating and deepening the literature on the efficiency and competitiveness of Islamic banks.

The novelty of this research lies in its comparative approach using five years of time series data and analyzing several key ratios simultaneously. Not only does this study measure profitability, but it also analyzes efficiency, liquidity, and asset quality while considering the differences in business structure between Islamic and conventional banks. This study also uses a quantitative approach complemented by inferential statistical analysis to test the significance of the differences between the types of banks (Pratama & Nugroho, 2020; Sari et al., 2022; Wahyuni et al., 2023). Additionally, the analysis model used takes into account macroeconomic dynamics and ongoing trends in the financial industry. With this approach, the study provides deeper and more relevant information for policymaking purposes. Another uniqueness is the integration of financial and managerial perspectives in the interpretation of the results. Therefore, this study is not only valuable theoretically but also practically in the context of the national financial industry.

This study aims to analyze and compare the financial performance of Islamic and conventional banks in Indonesia using financial ratios as the primary measurement tool. The analysis will be conducted on several indicators such as profitability (ROA, ROE), efficiency (BOPO), liquidity (LDR/FDR), and asset quality (NPL/NPF). The benefit of this study is to provide data-based information to stakeholders to understand the strengths and weaknesses of each type of bank. The practical implications include recommendations for regulators in formulating policies for the development of an inclusive and competitive banking industry. The findings of this study can also be used by bank management to develop performance improvement strategies. Academically, this study enriches the body of empirical literature in the fields of Islamic finance and banking. Thus, this study is expected to provide meaningful theoretical and practical contributions to the development of the banking industry in Indonesia.

## METHOD RESEARCH

This study uses a descriptive qualitative approach aimed at comparing the financial performance of Islamic commercial banks and conventional commercial banks in Indonesia through financial ratio analysis. The object of this research is the annual financial statements of Islamic banks and conventional banks registered with the Financial Services Authority (OJK) over the past five years. The data source for this research is secondary data, in the form of official publication financial statements for the 2018–2022 period, downloaded from each bank's official website and the OJK website. The population of this study includes all Islamic and conventional commercial banks in Indonesia, with a sample selected using purposive sampling, consisting of the three largest Islamic banks and three largest conventional banks based on total assets. The research instrument is a financial ratio data collection table covering profitability indicators (ROA, ROE), efficiency (BOPO), liquidity (FDR/LDR), and asset quality (NPF/NPL). The data is presented in a comparative matrix format to facilitate analysis. Data validity is ensured through source triangulation and analysis over several periods to guarantee the consistency and reliability of the information (Moleong, 2021; Sugiyono, 2022; Creswell & Poth, 2018).

The study is conducted in stages: identification of sample banks, collection of annual financial statements, extraction of financial ratio data, and comparison analysis. The financial ratio data from each bank is processed and compared across years to observe trends and fluctuations in performance. The analysis is conducted descriptively, emphasizing the interpretation of data based on the operational context of each type of bank. The data analysis technique used is descriptive comparative analysis, which categorizes the data into ratio categories and compares the performance of Islamic banks and conventional banks across each indicator. The results of the analysis are presented in the form of interpretive narratives, as well as graphs and tables to support visual understanding. The researcher also considers the differences in operational principles between Islamic and conventional banks as part of the result interpretation. With this approach, the study is expected to provide a comprehensive and contextual portrayal of the financial performance of both types of banks.

## RESULT AND DISCUSSION

### An Profitability: ROA and ROE Performance

Profitability is one of the main indicators that reflects a bank's ability to generate profit from its managed assets. In this study, the Return on Assets (ROA) and Return on Equity (ROE) ratios were used to assess the profitability of both Islamic and conventional banks. Over the 2018–2022 period, conventional banks consistently achieved higher ROA compared to Islamic

banks. This is due to the more flexible business model of conventional banks in determining interest margins and loan portfolio efficiency. In contrast, Islamic banks tend to show fluctuations in ROE, particularly due to the profit-sharing-based financing, which is variable. Although there has been a trend of improvement in recent years, significant differences in profitability ratios remain clear. This indicates that, in terms of profitability, conventional banks are still in a more competitive position.

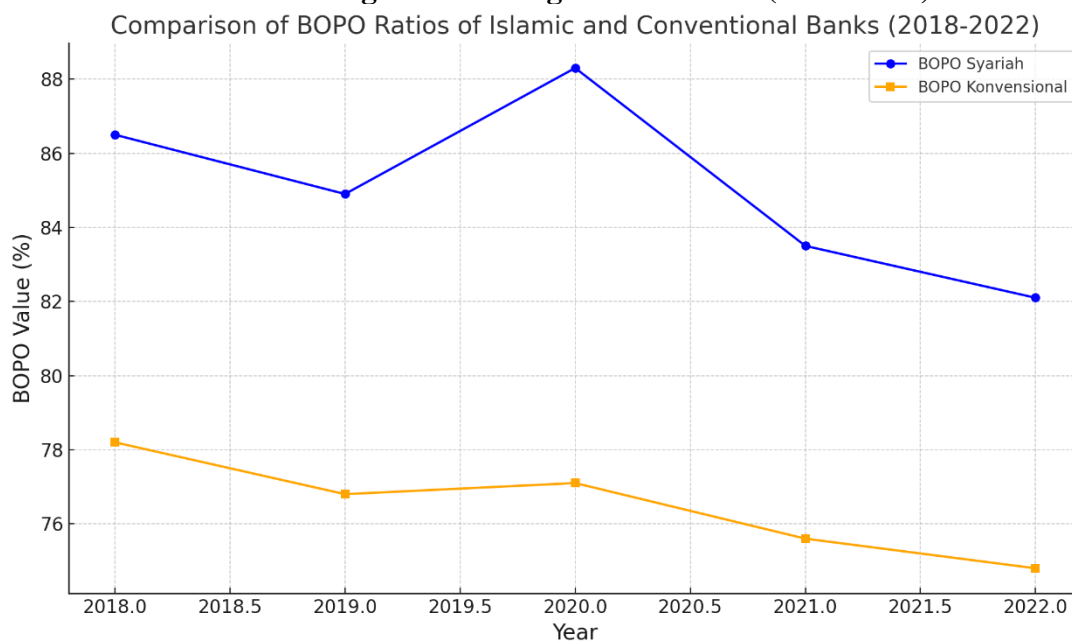
**Table 1. Comparison of ROA and ROE (2018–2022)**

Year	ROA Islamic Bank (%)	ROA Conventional Bank (%)	ROE Islamic Bank (%)	ROE Conventional Bank (%)
2018	1.21	2.31	10.44	14.89
2019	1.32	2.45	10.88	15.04
2020	0.98	2.10	8.56	13.77
2021	1.40	2.57	11.22	15.66
2022	1.48	2.68	12.35	16.02

**Efficiency: Evaluation Through BOPO Ratio**

The operational efficiency of banks is measured using the BOPO (Operational Cost to Operational Income) ratio. This ratio reflects how effectively a bank manages its costs relative to the income generated. The research results show that conventional banks tend to be more efficient compared to Islamic banks, as evidenced by lower and more stable BOPO values. This could be due to the larger economies of scale, product diversification, and extensive network. Islamic banks face challenges in efficiency due to more complex financing processes and limited technology in some units. However, in recent years, there has been a downward trend in the BOPO ratio of Islamic banks, indicating improvements in internal operations. Although it has not yet matched conventional banks, this signals positive development in efficiency management within Islamic banking.

**Figure 1. Average BOPO Ratio (2018–2022)**



**Liquidity: FDR and LDR in Both Banking Systems**

Liquidity is an indicator of a bank's ability to meet short-term obligations to depositors. In Islamic banks, the ratio used is the Financing to Deposit Ratio (FDR), while conventional banks use the Loan to Deposit Ratio (LDR). The results show that Islamic banks tend to have a higher FDR compared to the LDR of conventional banks. This indicates that Islamic banks are more aggressive in distributing financing compared to conventional banks. However, an excessively high FDR ratio could indicate potential liquidity risks if not balanced by good fund management. On the other hand, conventional banks show stability in managing liquidity due to their diversified funding sources. This difference in approach is important to analyze in the context of efficiency and operational risks.

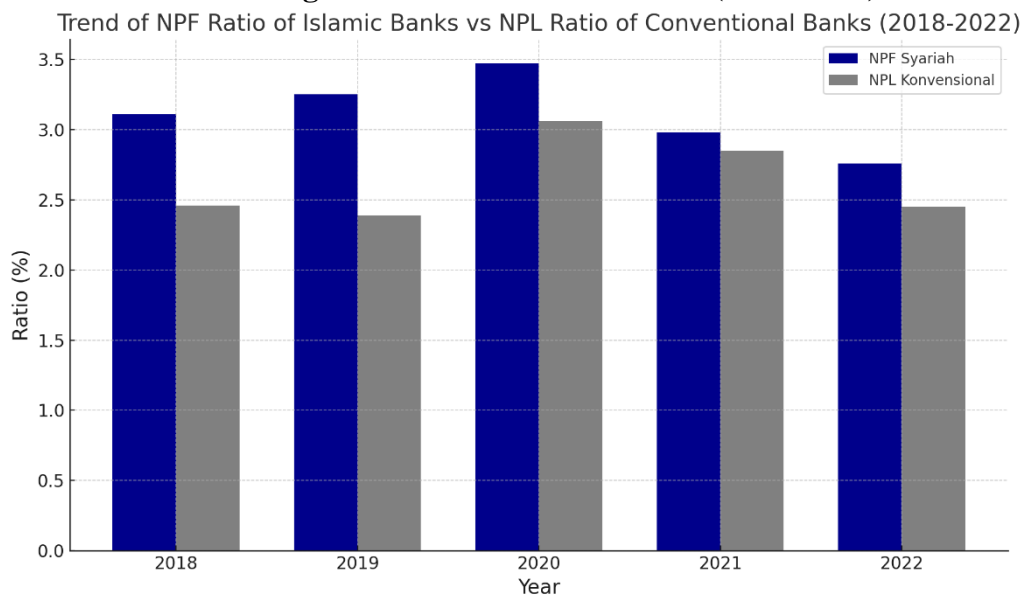
**Table 2. Comparison of FDR and LDR Ratios (2018–2022)**

Year	FDR Islamic Bank (%)	LDR Conventional Bank (%)
2018	94.2	88.1
2019	95.4	87.6
2020	92.8	85.9
2021	90.3	84.2
2022	89.5	83.7

**Asset Quality: Analysis of NPF and NPL**

Asset quality reflects the health of a bank's financing or loan portfolio. In this case, Islamic banks are measured using the Non-Performing Financing (NPF) ratio, while conventional banks use the Non-Performing Loan (NPL) ratio. Over the last five years, Islamic banks have consistently shown slightly higher NPF values than the NPL values of conventional banks. This indicates that the challenge of managing credit risk is still a major issue for Islamic banks. The difference in product characteristics and risk mitigation approaches is the primary cause of this difference. However, Islamic banks have shown a downward trend in NPF, indicating improvements in managing non-performing financing. This improvement reflects better risk analysis and internal supervision effectiveness in Islamic banks.

**Figure 2. NPF and NPL Trends (2018–2022)**



### **Comprehensive Comparison, Practical Implications, and Limitations of the Study**

Based on the analysis of financial ratios, it can be concluded that conventional banks generally have the advantage in terms of profitability and operational efficiency. However, Islamic banks show progress in efficiency, liquidity stability, and improved financing risk management. Nonetheless, the structural challenges and different business models affect the ratio achievements of each bank, so interpretations must be made contextually. This study supports previous findings that operational system differences lead to performance ratio discrepancies that cannot be fully equated. The practical implications of these findings are that Islamic banks need to improve digital efficiency and product innovation to approach the competitiveness of conventional banks. For regulators, this data can be used to formulate incentive policies and strengthen the institutional framework of Islamic banking. The main limitation of this study is the limited sample size and the lack of inferential statistical approaches; future studies are recommended to use quantitative or mixed-methods approaches for greater data validity.

### **CONCLUSION**

This study shows that there is a significant difference in financial performance between Islamic commercial banks and conventional commercial banks in Indonesia. In general, conventional banks excel in aspects of profitability and operational efficiency based on indicators such as ROA, ROE, and BOPO. However, Islamic banks show positive developments in liquidity and asset quality, as indicated by the increasingly stable FDR and NPF trends. Although their structures and operational principles differ, the financial ratio analysis provides an objective picture of the competitive positions of each type of bank. Using a comparative descriptive approach, this study makes an important contribution to mapping the performance of the national banking sector.

Islamic banks have the potential to enhance their competitiveness if they can innovate in cost efficiency and the utilization of digital technologies. The results of this study can serve as a foundation for policymakers in formulating regulations that promote balanced growth between Islamic and conventional banks. These findings are also useful for investors and other stakeholders in assessing the performance and business prospects of each type of bank. This research emphasizes that differences in ratios are not solely derived from financial performance, but also from differences in business structures and risk management approaches. Therefore, the development strategy for Islamic banks must take into account both internal strengths and external challenges in a holistic manner.

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