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Comparative Analysis of the Financial Performance of Regional Development Banks before and after Conversion to Islamic Banks

Abstract. In Indonesia, the government encourages converting conventional regional development banks into sharia regional development banks. Such banks should become the driving force and the stimulator of a sharia ecosystem in the region, especially to support the development of regional economic potentials and to become a prosperous and peaceful country. This study aims to analyze the financial performance of regional development banks that have become sharia regional development banks to identify their ability to continue to provide economic growth in the region. Considering the results of previous studies, the authors conduct a comparative analysis of the financial performance of regional development banks that have converted to sharia banks using the following variables: return on assets (ROA), return on equity (ROE), loan-to-deposit ratio (LDR) / financing-to-deposit ratio (FDR), net interest margin (NIM) / net operating margin (NOM) and ratio of operating expenses to operating income (BOPO). The analysis aims to determine whether there is a significant difference in the financial performance between conventional and sharia regional development banks. The population in this study is the regional development bank, with a sample of 3 banks that have converted into sharia banks (Bank Aceh Shariah, Bank NTB Shariah, and Bank Riau Kepri Shariah). The study uses secondary bank data from quarterly financial reports on the banks' websites. The independent sample t-test is used to test the performance of conventional and sharia banks. The study results indicate no significant differences in the financial performance of regional development banks as measured using the financial ratio indicators ROA, ROE, and LDR. However, there are significant differences in measurements using the NIM and BOPO ratio indicators. Although the financial performance of sharia banks is still lower than that of conventional banks, they are showing an upward trend.

Keywords: regional development banks, Islamic banking system, financial performance, ROA, ROE, LDR, FDR, NIM, NOM, BOPO.

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Порівняльний аналіз фінансових показників банків регіонального розвитку до та після перетворення в ісламські банки

Анотація. В Індонезії уряд заохочує перетворення звичайних банків регіонального розвитку в ісламські банки регіонального розвитку. Такі банки мають стати рушійною силою, а також стимулятором розвитку екосистеми шариату в регіоні, особливо для підтримки регіонального економічного потенціалу та становлення процвітаючої та мирної країни. Це дослідження має на меті проаналізувати фінансові показники банків

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регіонального розвитку, які стали ісламськими банками регіонального розвитку, щоб оцінити їх здатність продовжувати забезпечувати економічне зростання в регіоні. Беручи до уваги результати попередніх досліджень, автори проводять порівняльний аналіз фінансових показників банків регіонального розвитку, які перетворилися на ісламські банки, використовуючи такі змінні: рентабельність активів (ROA), рентабельність капіталу (ROE), співвідношення кредитів до депозитів (LDR) / співвідношення фінансування до депозитів (FDR), чиста процентна маржа (NIM) / чиста операційна маржа (NOM) і співвідношення операційних витрат до операційного доходу (BOPO). Мета аналізу – з'ясувати, чи є суттєва різниця у фінансових показниках між звичайними та ісламськими банками регіонального розвитку. Вибірка цього дослідження – це 3 банки регіонального розвитку, які перетворилися на ісламські (Bank Aceh Shariah, Bank NTB Shariah і Bank Riau Kepri Shariah). У дослідженні використовуються вторинні банківські дані, отримані з квартальних фінансових звітів, розміщених на веб-сайтах банків. Т-критерій незалежної вибірки використовується для перевірки показників звичайних та ісламських банків. Результати дослідження вказують на відсутність суттєвих відмінностей у фінансовій діяльності звичайних та ісламських банків регіонального розвитку, виміряній за допомогою показників ROA, ROE та LDR. Однак, існують суттєві відмінності щодо показників NIM і BOPO. Хоча фінансові показники ісламських банків все ще нижчі, ніж у звичайних банків, вони демонструють тенденцію до зростання.

Ключові слова: банки регіонального розвитку, ісламська банківська система, фінансові результати, ROA, ROE, LDR, FDR, NIM, NOM, BOPO.

INTRODUCTION

The banking sector is important in ensuring the country's economic growth. Banks help provide credit to increase investment and economic growth. Besides that, banks also maintain monetary stability and present the performance of good financial institutions. Data as of December 31, 2023, show that there are 105 commercial banks in Indonesia, including 27 regional development banks (BPD) (24 conventional BPD and 3 sharia BPD).

The economic growth of Indonesia depends on the economic development of each region. One of the government's efforts to advance the economy in each region of Indonesia is the establishment of the regional development bank. Such a bank is located in every region/province in Indonesia. The purpose of establishing the regional development bank is to assist the government in encouraging economic growth evenly in every region of Indonesia. Regional development bank has two categories in its banking system: conventional and sharia banks. The main difference between conventional and sharia banks is that they carry out their business processes following capitalist economic principles so that the profits or returns obtained use the interest system. At the same time, sharia banks' banking principles are based on islamic values, so they prioritize not only profit but also mutual benefit and obtain the pleasure of Allah SWT (Ikono & Sari, 2020).

Unlike conventional banks, sharia banks strive to improve social welfare and realize justice and equitable socio-economic growth. Sharia banks consist of a Islamic financial system derived from Islamic values and designed to achieve Sharia objectives, commonly called maqoshid al sharia. Sharia banks have corporate goals that must be linked to maqoshid sharia so that the performance of sharia banks can lead to the achievement of maqoshid sharia (Lesmana & Haron, 2019). The principles of Islamic banking cannot be separated from the objectives of sharia (Maqasid Shariah), which are the main basis for every process and development of sharia bank product operations to achieve and realize welfare for the wider community (Bakhri & Labibi,

2021). Sharia banks should be different from conventional banks, which are rooted in a capitalistic nature to maximize profits. Therefore, sharia banks must have greater social responsibility and not only pursue maximum profit (HGB, 2017). Whether in terms of profits or losses, the Islamic banking system ensures that all parties involved get an equal share. Every financial transaction or business deal involves the customer as a partner or contributor (Shahid et al., 2010).

The regional development bank, which originally used a conventional bank system for all its business processes, is now gradually changing its business processes by converting to a Islamic banking system. The gradual change from conventional regional development banks to sharia banks is certainly motivated by several factors. As stated on the official website of the President of the Republic of Indonesia (2021), the government is trying to strengthen the Islamic financial ecosystem in Indonesia further, as well as making Indonesia the world's Islamic financial centre, considering that Indonesia is a country with the largest Muslim population in the world.

The first regional conventional bank to transform into a sharia bank was Bank Aceh in 2016. Subsequently, two more regional banks transitioned (Bank NTB Syariah in 2018 and Bank Riau Kepri Syariah in 2022).

This study aims to analyze the financial performance of regional development banks that have become sharia regional development banks to identify their ability to continue to provide economic growth in the region.

LITERATURE REVIEW

Several previous studies show that sharia banks' financial performance is lower than that of conventional banks, but recently, it has been on an upward trend. Kazim (2022) states that conventional banks are more efficient and profitable than sharia banks in Pakistan. However, Murad et al. (2021) found that the profitability of sharia banks has gradually improved compared to conventional banks in Pakistan. The same thing was revealed by Ahmad (2020) in Bangladesh: sharia banks

show quite good cost efficiency, and they can produce services at lower costs. According to him, the relatively good performance of sharia banks is based on various reasons, one of which is that sharia banks fully focus on interest-free processes, which makes the industry more efficient; on the other hand, equity-based investment is also an important factor for the good and stable performance of sharia banks. In line with this, sharia banks were able to attract investors and the public during the financial crisis.

Meanwhile, in Indonesia, the financial performance of conventional banks was better than that of sharia banks during the global crisis. In particular, Alamsyah & Meilyda (2020) discovered that the performance of conventional banking is better when compared to the financial performance of Islamic banking. Their study also proves that conventional banking is more attractive to the public when compared to Islamic banking; this can be seen from the value of financing and financial transactions, which conventional banks dominate. Lisa & Hermanto (2020) revealed that conventional banks have a better ability to earn net income with the use of all assets owned by the bank compared to sharia commercial banks. However, their research also said that the two types of banks generally perform fairly well and still follow Bank Indonesia (BI) regulations.

Regarding liquidity, sharia banks perform better financially than conventional banks (Juniardi et al., 2019). Silviana's research (2016) also found that sharia banks perform better than conventional banks. In terms of profitability, calculated by the ratio of return on assets (ROA), sharia banks show better performance.

Bank financial performance is important and always requires in-depth evaluation for the sustainability of a bank. Based on SEOJK.03/2019, regarding the Bank Health Level Rating System, several ratios can be used to measure the financial performance of banks (OJK, 2019). Rachman et al. (2019) used ROA, BOPO, NIM, and LDR ratios to compare the financial performance of conventional and sharia banks. They found that conventional banks have higher ROA and BOPO ratios than sharia banks, while NIM and LDR ratios do not differ from conventional banks. Overall, conventional banks have better performance.

Furthermore, Pramudita Trisela & Pristiana (2020), using BOPO, LDR, and ROA ratios, found that conventional banks have higher ROA and BOPO values than sharia banks, while sharia banks have higher LDR ratios than conventional banks. At the same time, Fahdiansyah (2021) used the LDR, ROA, and ROE ratios to assess the financial performance of banks and found that the results of sharia banks are slowly increasing. Similarly, Pratiwi & Alita (2018) found that sharia banks' LDR and ROA ratios are better than conventional banks.

Thus, the performance of sharia banks, when viewed from the calculation of financial ratios of previous research, has a lower value than conventional banks. Judging from the profitability ratio, sharia banks have a lower ability than conventional banks; this can be caused because sharia banks hold the principle of profit sharing,

following the purpose of sharia (maqoshid syariah), which is not only concerned with profit alone.

Considering the results of previous studies, researchers are interested in conducting a comparative analysis of the financial performance of regional development banks that have converted to sharia banks. We will use the return on asset (ROA) & return on equity (ROE) ratio variable because measuring the ROA & ROE ratio will demonstrate the level of profitability or profit the bank can generate in managing its assets and capital. The next variable is the loan-to-deposit ratio (LDR)/ financing-to-deposit ratio (FDR) term in sharia banks because assessing banks' LDR/FDR ratio will help determine the bank's liquidity level. LDR ratio can provide an overview of the bank's ability to extend credit or financing to third parties to get back income in the form of interest which will increase profits for the bank. We will also use the net interest margin (NIM) ratio / net operating margin (NOM) term in sharia banks. Calculating the NIM ratio in conventional banks will demonstrate the bank's ability to generate profits in the form of net interest income from managing its productive assets, as well as the term NOM in sharia banks because it does not recognize interest term, assessing this ratio will provide an overview about banks in managing their operations to generate net income. Evaluating the ratio of operating expenses to operating income (BOPO) will provide an overview of the bank's efficiency in carrying out its operations; the BOPO ratio can give insight into how the bank can utilize its resources efficiently for its operational activities and the efficiency of the costs used.

THEORETICAL BACKGROUND

Conventional Banking

Conventional banks conduct business operations conventionally and provide services in payment traffic. Where the collection of funds in the context of channelling funds provides and charges rewards in the form of interest or rewards in a certain percentage of funds for a certain time. The main profit of the banking business based on conventional principles is obtained from the difference in deposit interest given to depositors with interest on loans or credit disbursed (Financial Services Authority (OJK) portal, Article 1 paragraph 3 of Law No. 10 of 1998).

Islamic Banking

Sharia banks operate without interest rewards but use a profit-sharing system. Sharia banks, also known as interest-free banks, are banking and financial institutions whose operations are based on the Qur'an and Prophetic Hadith. The Islamic banking system based on the principle of profit sharing provides a choice of banking systems to the public that will mutually benefit banks and the public, following the pillars of maqoshid sharia, which guide the Islamic banking process. Sharia principles, economic democracy, and prudential principles are the basis of Islamic banking operations (Permatasari et al., 2023).

Maqhosid Sharia

The definition of maqoshid, or the purpose of sharia, can be concluded that it relates to the causes, effects, wisdom, and secrets given by the legislator of Sharia, Allah SWT (Elahi & Alam, 2015). Islamic banking requires a Sharia objective measurement tool, known as maqashid sharia, to evaluate the results it has achieved and to ensure that its operations are by Sharia principles, especially in terms of the objectives of sharia banks.

Sharia banks must consider social, environmental, and spiritual aspects in addition to financial (Nugroho & Tamala, 2018). According to the constitution of the Republic of Indonesia Number 21 (2008) on Islamic banking, "The purpose of Islamic banks is to assist national development by promoting justice, equity, togetherness, brotherhood, and equal welfare for all". Therefore, Islamic banking must adhere to Sharia principles as a whole and totality (kaffah) and consistently (istiqomah) in its operations to achieve these national development goals (Nugraha et al., 2020).

ROA

The net income after-tax ratio is known as return on assets (ROA) is used to determine how much return on assets is owned by banking institutions (Sahri et al., 2022). The value of a bank's return on assets (ROA) may indicate that it is profitable, but if the value is negative, it indicates a loss or no profit. ROA can be calculated by dividing total assets by multiplying profit before tax by one hundred percent. If a bank's credit score is greater than 1.22%, the bank's ROA is considered healthy.

$$ROA = \frac{\text{Net Profit Before Tax}}{\text{Total Assets}} \times 100\%$$

H0: There is no significant difference in the ROA ratio value between conventional and sharia regional development banks.

H1: There is a significant difference in the ROA ratio value between conventional and sharia regional development banks.

ROE

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Thus, the relationship between net income and the capital used by a bank is known as return on equity. If the bank's credit score exceeds 12.50%, then the bank's ROE is considered healthy.

$$ROE = \frac{\text{Net Profit}}{\text{Total Equity}} \times 100\%$$

H0: There is no significant difference in the ROE ratio value between conventional and sharia regional development banks.

H2: There is a significant difference in the ROE ratio value between conventional and sharia regional development banks.

LDR/FDR

Loan-to-deposit ratio (LDR) / financing-to-deposit ratio (FDR) are used to calculate the liquidity ratio, with LDR showing the ratio used by conventional banks and FDR showing the ratio used by sharia banks (Komalasari & Wirman, 2021).

$$LDR = \frac{\text{Credit Granted}}{\text{Third Party Funds}} \times 100\%$$

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

H0: There is no significant difference in the LDR/FDR ratio value between conventional and sharia regional development banks.

H3: There is a significant difference in the LDR/FDR ratio value between conventional and sharia regional development banks.

NIM/NOM

Net interest margin (NIM) in conventional banks is a ratio between net interest income and average earning assets. The greater the NIM ratio, the better the management of productive assets in generating interest income. The term net operating margin (NOM) is used in Islamic banking. This ratio helps to measure the effectiveness of productive assets in generating profit.

$$NIM = \frac{\text{Net Interest Income}}{\text{Average Earning Assets}} \times 100\%$$

$$NOM = \frac{(\text{Net Profit} - \text{Operating Expenses})}{\text{Gross Revenue}} \times 100\%$$

H0: There is no significant difference in the NIM/NOM ratio value between conventional and sharia regional development banks.

H4: There is a significant difference in the NIM/NOM ratio value between conventional and sharia regional development banks.

BOPO

The ratio of operating expenses to operating income (BOPO) is used to assess the level of efficiency of a banking industry in carrying out its operations. The lower the BOPO ratio value, the more efficient the cost management of the company's operations (Alamsyah & Meilyda, 2020).

$$BOPO = \frac{\text{Operating Expenses}}{\text{Operating Income}} \times 100\%$$

H0: There is no significant difference in the BOPO ratio value between conventional and sharia regional development banks.

H5: There is a significant difference in the BOPO ratio value between conventional and sharia regional development banks.

Figure 1 presents the conceptual framework of this study.

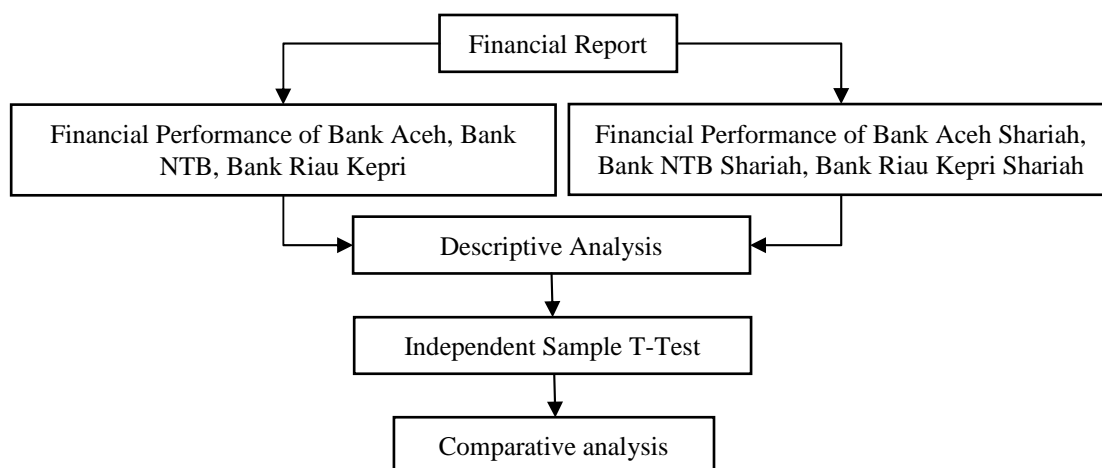


Figure 1. Research Conceptual Framework

RESEARCH METHODS

Sample and data

This research is descriptive and quantitative. The population in this study is the regional development bank, with a sample of 3 banks that have converted into sharia banks (Bank Aceh Syariah, Bank NTB Syariah, and Bank Riau Kepri Syariah).

This study uses secondary bank data derived from quarterly financial reports located on the websites of Bank Aceh Syariah, Bank NTB Syariah, and Bank Riau Kepri Syariah. The collected data covers five quarterly reports: five when the bank was conventional and five when the bank became sharia.

For conventional Bank Aceh, financial data was taken from Quarter II Report 2015 to Quarter II Report 2016, and when it became Bank Aceh Syariah for Quarter III Report 2016 to Quarter III Report 2017. For conventional Bank NTB, financial data was taken from Quarter II Report 2017 to Quarter II Report 2018, and when it became Bank NTB Syariah for Quarter III Report 2018 to Quarter III Report 2019. For conventional Bank Riau Kepri, financial data was taken from Quarter II Report 2021 to Quarter II Report 2022, and when it became Bank Riau Kepri Syariah for Quarter III Report 2022 to Quarter III Report 2023.

Measurement of variables

This study evaluates the financial performance of regional development banks before and after conversion from conventional to sharia system. Researchers use such variables such as return on assets ratio (ROA), return on equity ratio (ROE), loan-to-deposit ratio / financing-to-deposit ratio (LDR/FDR), net interest margin / net operating margin (NIM/NIM), and operating expenses to operating income ratio (BOPO). The independent sample t-test is used to test the performance of conventional and sharia banks. In the independent sample t-test, if the sig. (2-tailed) reaches a value above 0.05, then the performance of conventional and sharia banks has no significant difference. Conversely, if the sig. (2-tailed) reaches a value below 0.05, then the performance of conventional and sharia banks significantly differs.

RESULTS

Descriptive Statistics

The analysis technique used is the independent sample t-test statistical test. Before conducting statistical tests, descriptive analysis was first carried out on the research variables. Table 1 shows the results of the descriptive analysis of the regional development banks when they were conventional and when they became sharia.

Table 1. Descriptive Statistics

		N	Minimum	Maximum	Mean	Std.Deviation
ROA	Conventional	15	1.53	3.33	2.3713	0.53556
	Sharia	15	0.41	3.4	1.9253	0.94025
ROE	Conventional	15	11.54	24.24	16.5307	5.06078
	Sharia	15	3.47	23.28	12.7753	6.91611
LDR	Conventional	15	61.47	84.05	71.066	5.40713
	Sharia	15	60.76	98.93	76.48	9.46311
NIM	Conventional	15	4.42	7.35	5.9913	1.16752
	Sharia	15	-4.76	2.91	0.99	1.99191
BOPO	Conventional	15	69.82	83.56	76.9852	3.27962
	Sharia	15	69.69	94.43	82.5607	8.81818
Valis N (listwise)		15				

Source: data processed by SPSS23.

Profitability, as measured by return on asset (ROA), shows that conventional regional development banks have a minimum ROA of 1.53% and a maximum of 3.33%. Meanwhile, the sharia regional development banks have a minimum ROA of 0.41% and a maximum of 3.40. Judging from the average ROA value, conventional banks have a value of 2.3713%, and sharia banks have an average ROA value of 1.9253%; both banks have an average difference in value of only 0.446%. However, as seen, conventional banks have a higher average ROA value than sharia banks.

Likewise, the value of the return on equity (ROE) ratio of the conventional regional development banks shows a minimum value of 11.54% and a maximum value of 24.24%. However, when they become sharia banks, this indicator has a minimum value of 3.47% and a maximum value of 23.28%. Judging from the average ROE value of conventional banks of 16.5307% and the average ROE value of sharia banks of 12.7753%, the difference in ROE average value is 3.7554%. However, conventional banks have a higher average ROA value than sharia banks.

Liquidity, as measured by the loan-to-deposit ratio (LDR) in conventional banking and the financing-to-deposit ratio (FDR) in Islamic banking, shows that the conventional regional development banks have a minimum value of 61.47% and a maximum value of 84.05%. Meanwhile, when they became sharia banks, this indicator had a minimum value of 60.76% and a maximum value of 98.93%. The average LDR value in conventional banks is 71.0660%, and the average FDR

value in sharia banks is 76.4800%, the difference in LDR or FDR values of both banks being 5.414%, with the average value of sharia banks higher than conventional banks.

Net interest margin (NIM) of conventional regional development banks has a minimum value of 4.42% and a maximum value of 7.35%. Meanwhile, when they became sharia banks, this indicator had a minimum value of NIM or commonly, in sharia banks has the term net operating margin (NOM) of -4.76% and a maximum value of 2.91%. Judging from the average NIM value of conventional banks of 5.9913% and the average NOM value in sharia banks of 0.9900%, the two banks have a difference in the value of 5.9913%, where conventional banks have a higher NIM value than sharia banks.

The value of the ratio of operating expenses to operating income (BOPO) in conventional regional development banks has a minimum value of 69.82% and a maximum value of 83.56%. Meanwhile, for sharia banks, this indicator had a minimum value of 69.68% and a maximum value of 94.43%. When viewed from the average value of BOPO in conventional banks of 76.9852% and the average value of BOPO in sharia banks of 82.5607%, both banks have a difference in value of 5.5755%. Sharia banks have a higher average BOPO value than conventional banks.

Independent Sample T-Test / Hypothesis Test

After calculating using an independent sample t-test, the results of the mean difference test for each variable can be seen in Table 2.

Table 2. Independent Sample T-Test Results

Var	Parameter	Levene's Test		t-test		Mean	
		F	Sig	t	sig.(2-tailed)	Conventional	Sharia
ROA	Equal Variance Assumed	6.302	0.018	1.596	0.122	2.3713	1.9253
	Equal Variance non Assumed			1.596	0.125		
ROE	Equal Variance Assumed	3.144	0.087	1.697	0.101	16.5307	12.7753
	Equal Variance non Assumed			1.697	0.102		
LDR	Equal Variance Assumed	3.354	0.078	-1.294	0.065	71.066	76.48
	Equal Variance non Assumed			-1.294	0.067		
NIM	Equal Variance Assumed	0.445	0.51	8.389	0	5.9913	0.99
	Equal Variance non Assumed			8.389	0		
BOPO	Equal Variance Assumed	19.12	0	-2.295	0.029	76.9852	82.5607
	Equal Variance non Assumed			-2.295	0.034		

Source: data processed by SPSS23.

First Hypothesis (H1)

As seen in the Significance table (2-tailed), the return on asset (ROA) variable produces a value of 0.122, meaning that the significance value (2-tailed) is higher than the significance level of 0.05; this indicates that H1 is rejected and H0 is accepted. Thus, there is no significant difference in the ROA ratio value between conventional and sharia regional development banks.

Second Hypothesis (H2)

As seen in the Significance table (2-tailed), the return on equity (ROE) variable produces a value of 0.101, meaning that the significance value (2-tailed) is higher than the significance level of 0.05. This indicates that H2 is rejected and H0 is accepted. Thus, there is a significant difference in the ROE ratio value between conventional and sharia regional development banks.

Third Hypothesis (H3)

As seen in the Significance table (2-tailed), the loan-to-deposit ratio (LDR) variable produces a value of 0.065, meaning that the significance value (2-tailed), which is higher than the significance level of 0.05 indicates that H3 is rejected and H0 is accepted. Thus, there is no significant difference in the LDR/FDR ratio value between conventional and sharia regional development banks.

Fourth Hypothesis (H4)

As seen in the Significance table (2-tailed), the net interest margin (NIM) variable (or net operating margin (NOM) in sharia banks) produces a value of 0.000, meaning that the significance value (2-tailed) which is lower than the significance level of 0.05 indicates that H4 is accepted and H0 is rejected. Thus, there is a significant difference in the NIM/NOM ratio value between conventional and sharia regional development banks.

Fifth Hypothesis (H5)

As seen in the Significance table (2-tailed), the ratio of operating expenses to operating income (BOPO) variable produces a value of 0.029, meaning that the significance value (2-tailed) which is lower than the significance level of 0.05 indicates that H5 is accepted and H0 is rejected. Thus, there is a significant difference in the BOPO ratio value between conventional and sharia regional development banks.

DISCUSSION

From the t-test results above, the ROA and ROE values show equal variance assumed significance greater than the specified significant level ($0.122 > 0.05$); this means that the ROA and ROE values between conventional and sharia banks do not experience significant differences. Thus, the profit generated by the conventional regional development bank was no different when it became a sharia bank. As Bustamil & Nurwahidin (2023) found, the results showed no significant difference in the value of ROA & ROE in both types of banks. However, there are differences when viewed from the results of descriptive statistics on the average value of ROA and ROE of conventional and sharia regional development banks. The average value of ROA and ROE produced by conventional banks has a higher value than the average value of ROA of sharia banks ($2.3713 > 1.9253$) and ROE of sharia banks ($16.5307 > 12.7753$). Thus, conventional banks have a longer time in operation to have higher managerial performance capabilities (Kazim, 2022). In addition, conventional banks are profit-oriented, prioritizing generating profits for their shareholders. A higher average ROE means conventional banks provide a high enough return to their investors through dividends. It leads to more investments and a higher return on equity, contributing to a higher ROA. This profit-centred strategy allows them to engage in various financial investments and assume greater risks, potentially resulting in greater returns (Juniardi et al., 2019). In contrast, sharia banks are not principled on profit but

on profit sharing, whereas sharia banks are not only concerned with profits for their companies. Sharia banks must prioritise maintaining the safety and welfare of customers, employees, and the wider community, in line with the principle of protecting human life (Nafs) and preventing harm, by maqashid sharia guidelines in Islamic banking activities. This is supported by Kazim's (2022) research on the profitability of sharia banks versus conventional banks in Pakistan. However, the average value of ROA and ROE of sharia banks does not mean bad according to Bank Indonesia regulations SE BI No.6/23/DPNP/2004 regarding a good ROA value $> 1.25\%$ and a good ROE value > 12.5 . Kazim (2022) said that although the ROA and ROE values of sharia banks are below conventional banks, this does not mean that sharia banks have poor growth. Sharia banks continue to increase yearly and get profits in their business processes, so they continue to proliferate until now.

The liquidity through the loan-to-deposit ratio (LDR) variable shows that the value of equal variance assumed significance is greater than the specified significant level ($0.065 > 0.05$). Thus, the LDR value of conventional regional development banks when they have become sharia banks does not experience significant differences. This aligns with research conducted by Dewi & Khotijah (2023), who found no significant difference between conventional and sharia banks, meaning that conventional and sharia banks can fund loans with capital owned by banks. However, there are differences when viewed from the results of descriptive statistics on the average value of LDR/FDR for conventional and sharia regional development banks. The average value of conventional banks' LDR/FDR ratio is lower than that of sharia banks ($71.066 < 76.48$). Thus, sharia banks are more liquid than conventional banks because they channel more funds into financing and focus more on productive activities in the real sector. The principle of Islamic banking is to channel more funds into financing. At the same time, conventional banks also channel them into the money market, capital market, Bank Indonesia Certificates (SBI), and other securities. Although sharia banks are more aggressive in channelling financing through the placement of productive assets, liquidity is maintained (Juniardi et al., 2019). The placement of sharia bank financing distribution focuses on the real sector and, of course, cannot be separated from the maqashid sharia principle, which aims to provide direct benefits and welfare to the wider community to help move the economy. The increase in LDR means an increase in credit expansion with no offset by the collection of third-party funds. A low LDR value means the bank has funds that are not channelled as financing loans. However, according to the Bank Indonesia regulations SE BI No.6/23/DPNP/2004, these two banks have an average value of the LDR ratio, which is quite liquid.

The net interest margin (NIM) ratio (or net operating margin (NOM) in Islamic banking) shows that the value of equal variance assumed significance is smaller than the specified significance level ($0.000 < 0.05$). Thus, regional development banks' value of NIM or NOM significantly differs for conventional and sharia banks. This study's

results align with the research conducted by Dewi & Khotijah (2023), which found differences between conventional and sharia banks as seen from the NIM ratio. However, the average value of NIM in conventional banks is higher than the average value of NOM in sharia banks (5.9913% > 0.9900%). Thus, the ability of conventional regional development banks to generate profits or return net interest income from their productive assets is higher than when they became sharia banks. This is in line with the principle of sharia banks that do not prioritize profits in their business processes, and also in line with maqoshid sharia in sharia banks; there is a prohibition on generating income through interest. The ability of sharia regional development bank to generate profits from the management of its productive assets is still not good because it is below 5%, even below 1%, where according to Bank Indonesia regulation No.13/1/PBI (2011), a good and healthy NIM value has an average value of $\geq 5\%$. This could be because the sharia bank has just started operating.

The equal variance assumed value of the ratio of operating expenses to operating income (BOPO) shows that the significance value is smaller than the specified significance level ($0.029 < 0.05$). Thus, the BOPO value of conventional regional development banks when they become sharia banks is significantly different. This is in line with the research of Juniadi et al. (2019), which found significant differences in BOPO ratios between conventional and sharia banks in Indonesia. In addition, the average value of BOPO of conventional and sharia banks is different, whereas conventional banks have a lower average BOPO value than sharia banks ($76.9852\% < 82.5607\%$). This shows that conventional regional development banks better manage operating costs than sharia banks. The lower the BOPO, the more efficient the bank manages costs and the more profit the bank will earn (Juniardi et al., 2019). Ahmad (2020)

found that the operational efficiency of conventional banks is better than sharia banks in Bangladesh. On the other hand, he also said that the growth of sharia banks' performance is getting relatively better. One of the reasons may be that sharia banks are fully focused on an interest-free direction that makes the industry more efficient. High operating costs may hinder higher profits, which aligns with one of the five principles of maqoshid sharia, which prohibits higher profits. Sharia banks can maximize credit management to overcome high operating costs. However, according to Bank Indonesia regulation SE BI No.6/23/DPNP/2004, the value of the BOPO ratio is good or efficient if it is below 94%. In our case, the value of the BOPO ratio of both types of banks is below 94%, meaning that both types of banks are still equally efficient in managing their operating costs.

CONCLUSION

The study results indicate no significant differences in the financial performance of regional development banks as measured using the financial ratio indicators ROA, ROE, and LDR. However, there are significant differences in measurements using the NIM and BOPO ratio indicators. As a whole, the financial performance of BPD when it was a conventional bank looks to have better capabilities than sharia banks, but this does not mean that the financial performance of sharia banks is bad. Regional development banks that have just undergone conversion are starting their development on a new basis, and therefore, their possibilities have not yet been fully revealed. Judging from the maqoshid Sharia theory, sharia banks do not pursue profits for the company alone but also provide a sense of fairness to customers for the profits generated. Although the financial performance of sharia banks is still lower than that of conventional banks, they are showing an upward trend.

4 References

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