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Conventional and Islamic Banks in Bangladesh: A Comparative Financial Performance Analysis

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Abstract

The main purpose of the study is to investigate the comparative financial performance of Islamic and conventional banks of Bangladesh. To do this, the study considered different performance measuring financial ratios namely profitability, liquidity, risk and solvency, capital adequacy, deployment and operational efficiency and used independent sample t-test and ANOVA to determine the significance of mean differences of these ratios between and among banks. A five years' data set of five Islamic and conventional banks for the period of 2009 to 2013 used for the analysis. The study found that Islamic banks more liquid, less risky and operationally efficient than conventional banks of Bangladesh. Finally, study expected that the findings will facilitates the bank managers, depositors, investors, shareholders and regulators for future decision of concern stakeholders by providing true picture of financial position of Conventional and Islamic banks in Bangladesh.

Keywords: Islamic banks, conventional banks, performance, Bangladesh.

Introduction

Islamic banking having distinct modes of operations as compared to conventional banks has been started in the 1970s to address the problem of Riba. The committed and resourceful individuals, professional bankers, Islamic economists and religious scholars are attributed to be pioneer of Islamic banking. Its philosophies and principles are, however, not new having been outlined in the Holy Qur'an and the Sunnah of Prophet Muhammad (p.b.u.h.) more than 1,400 years ago. The emergence of Islamic banking is often related to the revival of Islamic financial system which is totally usury (Riba) free. There was no initial working model to act upon, except the thought that

interest-based banking might be replaced by banking on the basis of profit-and-loss sharing. The basic purpose of Riba-free financial system was the elimination of all interest based transactions. Effort for the establishment of this system took place when the financial system at large, as also the regulatory environment, was Riba-based. At the start Riba free financial institute were established through private parties but soon things began to change in the late seventies and in the early eighties when Iran, Sudan, Pakistan and Malaysia realized the need to develop Riba-free financial system in all these countries (Ahmad, 1991).

Islamic banking started with the establishment of two financial institutions in Mit-Ghamr in the Nile Delta

and in Karachi from 1963-1967. The progress was made in this movement by the establishment of full-fledged Islamic bank with the name of Dubai Islamic Bank in 1965. By the end of 1996, the number of Islamic financial institutions reached to 166 in at least 34 Muslim and non-Muslim countries. Islamic banking got popularity in 1970s (Chapra, 2001).

Islamic banks are now operating and providing Islamic banking services in more than 60 countries of the world (Aggarwal, Rajesh and Tarik, 2000). There are more than 300 Islamic financial institutions all over the world with investment funds in excess of \$400 billion (El-Qorchi, 2005). The Islamic banking industry's world-wide annual growth rate is more than 16%. Islamic banking has also gained approval by international financial institutions (IFI), professional bankers and the academic world. Islamic banking has successfully established its identity and performing its operations distinct from its conventional counterparts. Islamic banking in the modern world, generally aims to promote and develop the application of Islamic principles, law and traditions to transactions of financial, banking and related business affairs. Islamic banks, by doing so, will safeguard the Islamic communities and societies from activities that are forbidden in Islam (Tahir, 2003).

In August 1974, Bangladesh signed the charter of Islamic Development Bank and committed itself to reorganize its economic and financial system as per Islamic Shariah. Bangladesh government subscribed recommendation of Islamic Foreign Minister's conference held in Senegal in 1978 regarding systematic efforts to establish Islamic banks in the member countries gradually. In 1979, Mohammad Mohsin, the then Ambassador of Bangladesh in the UAE addressed a letter to the Foreign Secretary recommending establishment of an Islamic bank in Bangladesh in line with the Dubai Islamic Bank. In January 1981, the then President of the People's Republic of Bangladesh while addressing the 3rd Islamic Summit Conference held at Makkah and Taif suggested: " the Islamic countries should develop a separate banking system of their own in order to facilitate their trade and commerce." this statement of the President indicated favorable attitude of the Government of Bangladesh towards establishing Islamic banks and financial institutions in the country. Earlier in November 1980, Bangladesh Bank, the country's central Bank, sent a representative to study the working of several Islamic banks abroad and this very year an international seminar on Islamic banking

held in Dhaka was inaugurated by the Governor of Bangladesh Bank and he urged the participants to come forward to establish an Islamic bank in Bangladesh. In November 1982, a delegation of IDB visited Bangladesh and showed keen interest to participate in establishing a joint venture Islamic Bank in the private sector. They found a lot of work had already been done and Islamic banking was in a ready form for immediate introduction.

At last, the long drawn struggle to establish an Islamic bank in Bangladesh became a reality and Islami Bank Bangladesh Limited was founded on 30th March, 1983 in which 19 Bangladeshi national, 4 Bangladeshi institutions and 11 banks, financial institutions and government bodies of the Middle East and Europe including IDB and two eminent personalities of the Kingdom of Saudi Arabia joined hands to make the dream a reality. Now in Bangladesh 8 full-fledged Islamic commercial banks are operating namely Islami bank Bangladesh, Shahjalal Islami bank, Social Islami bank, Al-Arafah Islami bank, ICB Islami bank, First Security Islami bank, EXIM bank and Union bank. There are also many conventional banks are operating many Islami banking branches. There are already captured a big share of banking industry of Bangladesh by these Islamic banks. However, they are facing different challenges from their conventional counterparts and national economy. As the banking industry of Bangladesh is very large and competitive and the competition mainly going on between Islamic and conventional banks; therefore, it is very crucial to measure the comparative performance of Islamic and conventional banks of Bangladesh.

Significance of the study

Financial Institutions are very important for every economy because they are the most contributing factor to keep economies on the path of economic growth and development. Financial ratios are the indicator of financial health of organization. Ratio analysis is not only important for depositors but also for management to improve organization future performance. The purpose of the study is to provide full picture of banks financial position to investors, management and shareholders. The another purpose of research is to make people aware of Islamic banks financial position and to make comparison of performance of Islamic and Conventional banks in order to identify, which one has, better financial position.

Literature review

Moin (2008) conducted a study of performance measuring between Islamic bank in Pakistan and conventional banks. The study evaluated the performance in terms of profitability, liquidity, risk, and efficiency for the period of 2003-2007. Twelve financial ratios such as Return on Asset (ROA), Return on Equity (ROE), Loan to Deposit ratio (LDR), Loan to Assets ratio (LAR), Debt to Equity ratio (DER), Asset Utilization (AU), and Income to Expense ratio (IER) were used as variables to assess banking performances. T-test and F-test were used to measure the significance difference of these Performances. The study found that Mezzan bank limited MBL is less profitable, more solvent (less risky), and also less efficient comparing to the average of the 5 Conventional banks. However, there was no significant difference in liquidity between the two sets of bank. In the same vein, Islamic bank business development framework is not working efficiently as compare to conventional banks (Farrukh, 2006).

Metwally (1997) evaluated the performance of 15 interest-free banks and 15 conventional banks in terms of liquidity, leverage, credit risk, profitability and efficiency. He concluded that the two groups of banks may be differentiated in terms of liquidity, leverage and credit risk, but not in terms of profitability and efficiency. Samad and Hassan (1999) evaluated the inter temporal and interbank performance of Islamic bank Islam Malaysia Berhad (BIMB) for the period 1984-1997 by using same performance measures and found that in inter-temporal comparison Islamic bank BIMB's made (statistically) significant progress in profitability while the BIMB risk increased. In interbank comparison the study found that BIMB is relatively more liquid and less risky compared to a group of 8 Conventional banks.

In case of Islamic banks, short term Debt financing includes Murabaha, Salam, and Qard fund and long term debt financing includes leasing in case of Conventional banks short term debt financing include treasury bills, trading bonds, short term loan and advances and deposits at other financial institution that mature within one year. Long term debt financing includes non-trading bonds and medium and long term loans (Hussein, 2004). Interest-free banks rely heavily on the Murabaha mode of finance which is like interest charge and based on the use of a mark-up. These performance measures were analyzed by Samad (2004) to compare the performance of Bahrain Islamic and conventional banks. He used student-t test and

found similar results in respect of profitability and risk while no difference was found in liquidity of two banks.

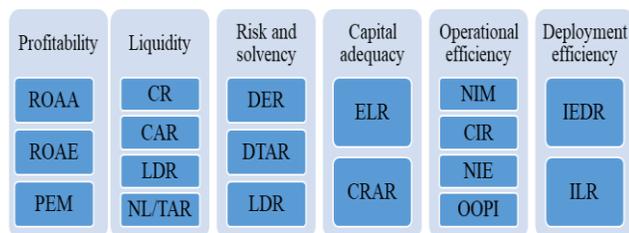
Iqbal (2001) made comparison of performance of Islamic banks with conventional banks. He compared performance of both types of 12 banks of equivalent size during 1990-1998. In addition to profitability, liquidity, and risk some more variables such as capital adequacy and deployment efficiency were also studied. The performance of Islamic banks has been evaluated using both trend and ratio analysis. He concluded that Islamic banks as a group out-performed the former in almost all areas and in almost all years. He analyzed through ratio analysis Islamic banks are not suffering from excess liquidity and are more cost effective and profitable than their Conventional counterparts. Kader, Janbota, Asarpota and Anju (2007) and Safiullah (2010) found the same results in UAE and Bangladesh respectively. The conventional banks profitability theories exist in Islamic banking. It is found that determinants such as capital ratio, liquidity, interest rate and money supply have similar effect on Islamic banks. Capital ratio, interest rate and inflation are positively related with the profitability of Islamic banks. However, there is negative relationship between market share and profitability (Haron and Ahmad, 2001). The conventional financing system is concerned only with the interest rate, while the Islamic financial system provide loan without interest and collateral or only against an administrative cost (Arif, 1988; Ayub, 2002). Islamic banks are certainly more profitable than their conventional peers enjoying the same balance sheet structure. The main reason for such a difference is that Islamic banks benefit from a market imperfection. Islamic banks lose on the grounds of liquidity, assets and liabilities concentrations and operational efficiency (Hassoune, 2002). The net non-interest margin (NIM) another indicator of performance measure indicate that Conventional banks are operationally efficient than Islamic banks. The profitability of interest-free banks is positively influenced by high capital and loan-to-asset ratios, favorable macroeconomic conditions, and negatively to taxes (Hassan and Bashir, 2003).

Hassan (2005) using a panel of interest-free banks from 22 countries, and using multiple efficiency techniques, found that interest-free banks were relatively less efficient in containing cost than conventional counterparts in the world but they are efficient in generating profit. The variable used to measure efficiency were bank size, profitability and

loan to asset ratios. The reason of less efficiency of interest-free banks is that they often face regulation not favorable to Islamic transactions in most countries. All above studies conducted in different countries deal with common problem. Most of them were conducted to analyze the performance of Islamic and conventional banks. All studies have not same result because of differences in selected time periods, analytical tools and cultural perspective. It is analyzed through these studies that Islamic banks are more profitable, more liquid, cost effective, and less risky and have better quality of loan portfolio and capital adequacy than their conventional counterparts but they lose at the ground of operational efficiency.

Conceptual framework

Financial performance



Methods and Materials

The ratio analysis involves method of calculating and interpreting financial ratios to assess bank performance. Financial ratios are the indicator of financial performance of bank. In order to compare performance of Islamic banks and Conventional banks for the period of 2009-2013 the study uses inter-bank analysis. The study evaluates inter-bank performance of Islamic and Conventional banks in term of profitability, liquidity, risk and solvency, capital adequacy, operation and resource allocation efficiency. Financial ratios are applied to measure these performances. The study uses eighteen financial ratios to evaluate bank performances. These ratios are grouped under six broad categories.

Profitability Ratios

Profitability ratios measure the managerial efficiency. These ratios use margin analysis and show the return on assets, deposits, investments, and equity. The higher profitability ratios are indicator of better performance. These ratios were Return on average assets (ROAA), Return on average equity (ROAE), and Profit expense ratio (PEM). This study uses the

same Profitability measure to analyze the performance of banks in Bangladesh.

1. Return on average assets (ROAA) = Earnings after tax/Average assets
2. Return on average equity (ROAE) = Earnings after tax/Average equity
3. Profit Expense Margin (PEM) = Profit before tax/operating expense

Liquidity Ratios

Liquidity ratios measure the bank ability to meet its short-term obligations. Banks face liquidity problem due to excess withdrawal from current and saving account. There are several measures of liquidity. Liquidity position of banks in Bangladesh is measured by using four above ratios.

1. Current Ratio (CR) = Cash and account with banks/Total deposits
2. Current Asset Ratio (CAR) = Current asset /Total asset
3. Loan Deposit Ratio (LDR) = Loans/ Deposits
4. Net Loan/ Total Asset Ratio (NLTA) = Net loans/Total assets

Risk and Solvency Ratios

Solvency ratios give a picture of a bank's ability to generate cash flow and pay its long-term financial obligations. If the total value of bank assets is greater than its equity, then the bank is solvent. These ratios included Debt equity ratio (DER), Debt to total asset ratio (DTAR) and Loan deposit ratio (LDR). This study uses the same hold to measure risk and solvency of banks in Bangladesh. The above mention ratios are calculated with the help of following formulas.

1. Debt Equity Ratio (DER) = Total Debt / Shareholder Equity
2. Debt to total asset ratio (DTAR) = Total Debt/ Total asset
3. Loan Deposit Ratio (LDR) = Loans/ deposits

Capital Adequacy Ratios

Capital ratios indicate the healthiness of financial institution to shock withstanding losses. These ratios identify the already existing banking problems. Adverse trends in these ratios may increase risk exposure and capital adequacy problems. This study focused on two following Capital ratios.

1. Equity/Liabilities ratio = Average equity/ Average liabilities
2. Capital Risk Asset ratio = Total Capital/Risk weighted Assets

Table 1. Summary of T-test and ANOVA of Profitability ratios.

Profitability Ratios	Mean	S.D.	T-test		ANOVA		
			S.D. Error Mean	t-value	Sig.	F-value	Sig.
ICB ROAA	0.3905	1.4124	0.2824				
CB ROAA	1.3325	2.4944	0.4988	-1.587	0.126	0.474	0.883
ICB ROAE	6.6428	8.9676	1.7935				
CB ROAE	0.1781	0.1443	0.0288	3.597	0.001	1.123	0.538
ICB PEM	0.6648	1.8341	0.3668				
CB PEM	1.2109	0.6895	0.1379	-1.482	0.151	0.424	0.899

Source: Study calculation

Operational Ratios

Operational ratios show how efficient a company is in its operations and use of assets. There are several ways of measuring operations. This study also focused them as profitability measures.

This study uses Net Interest Margin (NIM), Other Opt Income / Average Assets, Non Interest Exp / Average Assets and Cost income ratio to measure bank efficiency in its operations and use of assets. The following formulas are given to calculate these ratios

1. Net Interest Margin = Net markup & interest income/Average assets
2. Other Opt Income/Average Assets = other operating Income
3. Non-Interest Expense /Average Assets = Non-interest expenses/ Average Assets / Average Assets
4. Cost/Income ratio

Islamic and conventional banks in 1990s. This study uses the same deployment ratios to evaluate bank efficiency in resources allocation.

1. Investment/ Equity & Deposit = Total Investment /Total equity + Total Deposits

2. Investment/ Liabilities = Total Investment /Total Liabilities

The population of this research is Islamic and conventional banks of Bangladesh. the study considered five Islamic namely Al-Arafah Islami Bank, ICB Islamic Bank, Islami Bank, Shahjalal Islami Bank, Social Islami Bank, and five conventional banks namely AB Bank, Dhaka Bank, EXIM Bank, Premier Bank, Prime Bank as the sample banks of this study.

Data Sources and Data Analysis**Table 2.** Summary of T-test and ANOVA of Liquidity ratios.

Profitability Ratios	Mean	S.D.	T-test		ANOVA		
			S.D. Error Mean	t-value	Sig.	F-value	Sig.
ICB CR	0.3368	0.46171	0.09234				
CB CR	0.7671	1.99376	0.39875	-1.026	0.315	0.599	0.817
ICB CAR	0.5672	0.41836	0.08367				
CB CAR	0.9427	1.60058	0.32012	-1.067	0.297	2.178	0.198
ICB LDR	0.0743	0.11933	0.02387				
CB LDR	0.7945	0.21833	0.04367	-12.535	0.000	0.342	0.964
ICB NL/TA	0.0443	0.07251	0.01450				
CB NL/TA	0.6541	0.14828	0.02966	-15.031	0.000	0.656	0.775

Source: Study calculation

Deployment Ratios

Deployment ratios are used to evaluate how well bank is using its resources. Iqbal (2001) used two deployment ratios to evaluate the Performance of

The Audited financial statements i.e. Income Statement and Balance Sheet of both Islamic and Conventional banks for the period of 2009-2013 are used for ratio analysis. The ratios have been calculated with the help of ratio formulae. Inter-bank comparison

or cross-sectional analysis is used to compare the performances of both banks. Independent Sample t-test and ANOVA is used to determine the significance of mean differences of these ratios between and among banks. The decision criterion is P value. If P value is greater than 0.05 we will accept null hypothesis and reject research hypothesis.

Hypothesis

H1: Islamic banks are less profitable than Conventional banks.

H2: Islamic banks liquidity is higher than conventional banks.

H3: Islamic banks are less risky than Conventional banks.

H4: Islamic banks are well capitalized than Conventional banks.

H5: Islamic banks operational efficiency is better than conventional banks.

H6: Islamic banks resource allocation efficiency is more than Conventional banks.

expense. Table 1 shows the summary of t-test and ANOVA of profitability ratios.

It is analyzed from the result that the profitability of both banks has increase and decrease trends. Average profitability ratios ROAA, ROAE and PEM for Islamic bank are 0.390, 6.64, and 0.664 compared to 1.33, 0.17, and 1.21 for conventional banks. T-test shows these differences in ROAA and PEM of two banks is insignificant at 5% level. But ROAE is significant at 5% level of significance. However, ANOVA shows significance difference among the ROAE of banks from 2009-2013. Overall result shows that profitability performance of Islamic and Conventional banks is significantly different so research hypothesis is accepted that Islamic banks are more profitable than conventional banks.

The liquidity position of Islamic and Conventional bank is analyzed through Current ratio, Current Asset ratio, Loan Deposit ratio and Net Loans to Total Asset ratio. CR indicates the bank ability to meet its current liabilities. A higher value of CR shows that the

Table 3. Summary of T-test and ANOVA of risk and solvency ratios.

Profitability Ratios	Mean	S.D.	T-test			ANOVA	
			S.D. Error	t-value	Sig.	F-value	Sig.
ICB DER	7.4464	5.16961	1.03392				
CB DER	5.8121	5.58699	1.11740	0.901	0.376	5.83	0.156
ICB DTAR	4.3176	18.06681	3.61336				
CB DTAR	0.7440	0.33797	0.06759	0.991	0.332	1.916	0.137
ICB LDR	0.0743	0.11933	0.02387				
CB LDR	0.7945	0.21833	0.04367	-12.535	0.000	0.342	0.964

Source: Study calculation

Result and Discussion

This chapter analyzes the results obtained through financial ratios, Independent sample t-test and ANOVA. In order to make comparison more reliable, Independent sample t-test and ANOVA is used. The equality of means of banks is tested through Independent sample t-test and ANOVA. T-test is used to check the significance of mean differences between banks and ANOVA is used to check the significance of mean differences among banks.

Profitability of banks is analyzed by using three profitability measures ROAA, ROAE and PEM. ROAA is the net earnings per unit of a given asset. ROAE is the net earnings of per dollar equity capital. PEM is measure of cost efficiency which analyzes the bank efficiency of making higher profits with given

bank has more liquid assets to pay back to its depositors. CAR indicates the percentage of bank liquid assets. A high CAR is sign of liquidity. LDR measure the degree of bank relies on borrowed funds. The high figure of LDR shows that bank is more relying on borrowed funds and leads to illiquidity. Net loans to total assets ratio measures the total loans outstanding as a percentage of total assets. The higher this ratio indicates that a bank is loaned up and its liquidity is low. Table 2 shows the summary of all liquidity ratios used for comparative analysis of Islamic and conventional banks.

Islamic bank average CR and CAR are .33 and .76 as compared to .56 and .95 for Conventional banks and this mean difference is statistically not significant at 5% level of significance. Islamic bank average LDR

and NL/TA ratio are 0.07 and 0.044 as compared to 0.79 and 0.65 for Conventional banks. This mean difference between two banks is significant at 5% level of significance. ANOVA shows insignificant mean difference in CR, CAR, LDR and NLTA ratio of

shocks. DTAR is the indicator of bank financial strength to pay its debtors. The following table 3 shows the summary of risk and solvency ratios of sampled ICB and CB of Bangladesh.

Average DER, DTAR and LDR for Islamic bank are

Table 4. Summary of T-test and ANOVA of capital adequacy ratios.

Profitability Ratios	Mean	S.D.	T-test			ANOVA	
			S.D. Error Mean	t-value	Sig.	F-value	Sig.
ICB ELR	0.3114	0.53218	0.10644				
CB ELR	0.2217	0.27516	0.05503	0.889	0.383	2.136	0.108
ICB CRAR	0.0967	0.34674	0.06935				
CB CRAR	1.6722	4.44492	0.88898	-1.753	0.092	0.220	0.987

Source: Study calculation

banks at 5%. LDR and NL/TA ratio are in the favor of Islamic banks. These ratios are lower for Islamic banks, the lower these ratios it is considered better. These ratios show that Islamic banks do not rely more on borrowed funds and their percentage of assets tied up in loan is lower than conventional banks.

The reasons of Islamic bank high liquidity are firstly they do not have enough investment opportunities. Secondly, they are bound by religion and are allowed to invest only in Shariah approved projects. Thirdly, they rely more on their equity in making loans so they lack lending opportunities. Overall result shows that liquidity performance of Islamic and Conventional banks is significantly different so research hypothesis is accepted that Islamic banks liquidity is higher than conventional banks.

7.44, 4.31 and .07 as compared to 5.81, 0.744 and 0.79 for their Conventional counterpart. Paired Sample t-test and ANOVA supports that the mean difference of DER and DTAR is statistically insignificant at 5% level of significance. The lower risk and solvency ratios are good and show low riskiness of bank. DER and DTAR show higher percentage of risk for Islamic banks as compared to Conventional banks. It is analyzed from these results that Islamic bank are riskier than Conventional banks. It is concluded that Conventional banks' ability to absorb financial shocks and their financial strength to pay their debtor is higher than Islamic banks.

Capital adequacy of banks is measured with the help of Equity/Liability and Capital risk asset ratios. The summary of these ratios are present in table 4.

When average Capital ratios are compared for Islamic and Conventional banks it is analyzed that Islamic

Table 5. Summary of T-test and ANOVA of Operational ratios

Profitability Ratios	Mean	S.D.	T-test			ANOVA	
			S.D. Error Mean	t-value	Sig.	F-value	Sig.
ICB NIM	0.138	0.22214	0.04443				
CB NIM	0.0316	0.02427	0.00485	2.115	0.045	0.672	0.762
ICB OOI/AA	0.3265	0.60109	0.12022				
CB OOI/AA	1.5004	1.87536	0.37507	-2.990	0.006	8.499	0.265
ICB NIE	0.2834	0.74340	0.14868				
CB NIE	0.0307	0.02426	0.00485	1.692	0.104	0.932	0.566
ICB CIR	0.65	3.24593	0.64919				
CB CIR	.6628	0.70669	0.14134	1.157	0.259	1.169	0.455

Source: Study calculation

Three Risk and solvency measure DER, DTAR and LDR have been used to evaluate the riskiness of banks. DER measures the bank ability to absorb financial

bank have higher Equity liability and lower Capital risk asset ratio than Conventional banks. Islamic bank average capital risk asset ratio and Equity liability

ratios are 0.0967 and 0.3114 respectively while these ratios for Conventional banks are 1.672 and 0.227 respectively. T-test and ANOVA show that there is no significant mean difference between these ratios at 5% level. Overall result shows that Capitalization performance of Islamic and The fifth component of the study is operational ratios. The summary of operational ratios is presented at table 5.

1.589 and 0.74 for Islamic banks as compared to 0.288 and 0.22 for Conventional banks. This mean difference is not significant at 5% level for Investment / Equity and Deposit ratio and Investment Liabilities ratios. ANOVA doesn't support significance mean difference for deployment ratios. Results support the hypothesis that Islamic bank resource allocation efficiency is higher than conventional banks. This is

Table 6. Summary of T-test and ANOVA of Deployment ratios.

Profitability Ratios	Mean	S.D.	T-test		ANOVA		
			S.D. Error Mean	t-value	Sig.	F-value	Sig.
ICB IERD	1.5899	2.03471	0.40694				
CB IEDR	0.2887	0.38354	0.07671	3.348	0.003	0.505	0.864
ICB I/L	0.7421	0.10561	0.02112				
CB I/L	0.2285	0.25939	0.05188	8.811	0.000	0.797	0.671

Source: Study calculation

Conventional banks are significantly different so research hypothesis is accepted that Islamic banks are well capitalized than conventional banks.

NIM is one indicator of bank operational efficiency. The higher this ratio it is considered better. Average NIM ratio for Islamic bank is 0.138 higher than Conventional bank ratio 0.0316. This mean difference between two banks is not statistically significant at 5% level of significance. This ratio indicates that Islamic banks has high margin. The average Non Interest Exp/Average Assets ratios and Other Opt Income/Average Assets ratio are 0.2834 and 0.3265 for Islamic banks as compared to 0.0307 and 1.5004 for Conventional banks. However, a Cost / Income ratio is lower for Islamic banks. The lower the cost income ratio it is better. Islamic Bank Cost/Income ratio 0.65 is lower than Conventional bank 0.67. The mean differences of these ratios are not significant at 5% level. It is analyzed from overall results that major operational ratios NIM and Cost income ratios are in favor of Islamic banks and supports the hypothesis that Islamic banks operational efficiency is better than Conventional banks.

The last component of financial performance is deployment ratios. Deployment ratios measure the resource allocation efficiency. The higher these ratios are considered better. The summary results of these ratios are presented at table 6.

Islamic bank has higher average deployment ratios than Conventional bank. The average Investment/ Equity and Deposits and Investment/ Liabilities are

concluded from these results that deployment ratios are in favor of Islamic banks and they make much better use of their resources. So the study is accepting the hypothesis.

Conclusions

A comparative study conducted to examine the performance of Islamic and Conventional banks in Bangladesh found that Islamic banks in Bangladesh have better financial performance than their Conventional counterparts. Profitability measures of performance of ROAA, ROAE and PEM do not show (statistically) significant difference between the performances of Islamic and Conventional banks and reject the hypothesis that Islamic banks are more profitable than Conventional banks. Liquidity measures CR, CAR show that interbank liquidity performances of Islamic and Conventional banks are statistically different. Islamic banks are more liquid than Conventional banks in CR and CAR measures. LDR and NL/TA ratios are lower for Islamic banks which mean that Islamic banks do not rely more on borrowed funds and their percentage of assets tied up in loan is lower than Conventional banks. The study found that risk and solvency measures i.e. DER and DTAR show (statistically) significant difference between the performances of the two banks. Islamic bank financial strength to pay their debtors is low. These finding rejects the hypothesis that Islamic banks are less risky than Conventional banks. Capital adequacy measures support the hypothesis that Islamic banks are well capitalized than conventional bank.

Operational efficiency measures of both Islamic and conventional banks do not show (statistically) significant difference between the performances of both banks. NIM and Cost Income ratios are in the favor of Islamic bank which shows Islamic bank are more cost effective than their Conventional counterpart and accept the hypothesis that Islamic bank's operationally efficiency is more than their Conventional counterparts. Deployment ratios are higher for Islamic banks and accept the hypothesis that Islamic bank resource allocation efficiency is more than Conventional banks. It is concluded from the overall research that Islamic banks are more liquid, less risky and operationally efficient than Conventional banks.

Further Research suggestion

- Sample size should be increased for the same study. More banks should be taken as a sample to generalize the result of study on the whole industry.
- Since Islamic banking are in the introductory phase in Bangladesh. There is a strong need to conduct Performance evaluation studies from time to time so that corrective actions may be taken accordingly.

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