

A Comparative Evaluation of Profitability of Conventional Banks versus Islamic Banks in Bangladesh

Jabir Bin Abdullah, Rokibul Hasan Sakib¹, Dewan Azmal Hossain and
Ishtiak Ahmed Sakib
Department of Accounting & Information Systems
University of Dhaka, Dhaka, Bangladesh

Abstract

Generally two types of banking system exist in Bangladesh: conventional banking system and Islamic banking system. The conventional banking system consists of interest based banking system. On the other hand Islamic banking system is free of interest. As a result their profitability also differs. The purpose of this study is to compare the profitability of conventional banking system with that of Islamic banking system. Total 270 bank-years are considered as sample from the 30 listed banks of DSE of which 23 are conventional and 7 are Islamic banks during the period of 2010 to 2018 (3rd quarter for 2018). The result of this study is that conventional banks are more profitable than Islamic banks. Conventional banks' Return on Assets (ROA) and Profit Expense Ratio (PER) is significantly higher than those of Islamic banks but there is no significant difference in Return on Equity (ROE). Moreover it is also found that for conventional banks Total Equity to Total Assets (TETA) and Deposit to Total Assets (DTA) significantly affect ROA but for Islamic banks only Total Equity to Total Assets (TETA) affects ROA significantly. For conventional banks Deposit to Total Assets (DTA) affects ROE significantly and for Islamic banks Total Equity to Total Assets (TETA) and Debt Equity Ratio (DER) affects ROE significantly. This result may help these two sectors to know their position so that they can improve their present conditions. Besides, the regulatory authority will find it easier to incorporate new rules and regulations for those banking system. Further research can be done using the data of other countries where Islamic banking system exists.

Keywords: Profitability, Performance, Conventional Bank, Islamic Bank, Bangladesh.

¹ Corresponding author's email: rhsakib158@gmail.com

Introduction

To build up a financial system of a country, banking system plays a vital role. Without banking sector a country's financial system cannot be thought now-a-days. Besides it plays an important role in the economy of a country. A country's economy is tied up with its banking sector. Banking sector ensures the flow of currency by collecting the idle money and allocating that money to the productive sectors/fields of the country. Besides by creating money circulation in the economy it can also strengthen the financial system of a country. It also performs a lot of activities like collecting money, giving loans, discounting bills, issuing check, paying bills etc. It has become an industry of trust and safety. Thus failure of banking system may lead to financial crisis which may result in economic recession.

Background Information

After the independence in 1971, Bangladesh government announced State Bank of Pakistan (Dhaka Branch) as central bank (Bangladesh Bank) of the country. At that time there were two state owned specialized banks, three foreign banks and twelve commercial banks. Among those twelve commercial banks all banks were nationalized by the government which resulted in six government/state owned (nationalized) commercial banks which were Sonali Bank, Rupali Bank, Agrani Bank, Janata Bank, Pubali Bank and Uttara Bank. But due to inefficiency of those nationalized commercial banks, government privatized those banks from 1980s. By privatization banking industry saw huge expansion.

According to Bangladesh Bank, there are fifty nine scheduled banks operating in Bangladesh of which six are fully or majorly State Owned Commercial Banks (SOCBs), three are Specialized Banks (SDBs), forty one are Private Commercial Banks (PCBs) among which thirty three are Conventional PCBs and eight are Islamic Shariah based PCBs. And there are also nine Foreign Commercial Banks (FSBs) and five non-scheduled banks operating in Bangladesh. (Bangladesh Bank Website)

Objective of the Study

The main objective of the study is to compare the profitability of conventional banks with that of Islamic banks. Besides it will help an investor to decide in which kind of banks he/she will invest. The study also focuses on trend analysis by which one investor can understand in which time period conventional banks are more profitable than Islamic banks and vice versa. The study also helps an investor to evaluate the ROA, AOE and PER (Profit Expense Ratio) of conventional banks and Islamic banks. Moreover the study will help an individual to know which variables will significantly affect the ROA and ROE of conventional and Islamic banks.

Scope of Further Research

This study is based on simple analysis like ratio analysis, graphical analysis and regression analysis. Further research can be done by using other complex method to

acquire more accurate result. In ratio analysis only ROA, ROE and PER ratios are considered as measure of profitability which is another limitation of the study.

Theoretical Framework

Different literatures have been reviewed regarding similar topic. Different studies gave different opinions regarding the topic. Some literatures have been done based on Bangladesh perspective; some have been done with other countries' perspective. Those studies are done only in those countries which have Islamic Banks. Some studies referred that Islamic banks are more profitable, some said less profitable and some were indifferent. Many aspects about banking industry is discussed in the study of (Hossain, 2019). Apart from that (Rana, Hossain, & Rekha, 2016) found that Islamic banks in Bangladesh are superior in case of profitability and liquidity than conventional banks. On the other hand, (Islam, Alam, & Hossain, 2014) said conventional banks more profitable than Islamic banks in Bangladesh. However (Uddin, Ahsan, & Haque, 2017) and (Islam & Ashrafuzzaman, 2016) found no significant difference between conventional banks and Islamic banks in Bangladesh in their respective study. (Moin, 2013) found that Islamic banks in Pakistan are less profitable, efficient & more solvent but he found no significant difference in terms of liquidity between two types of banks. In another study in Pakistan, (Zaheer & Jamil, 2016) found conventional banks performing better than Islamic banks. Meanwhile in Malaysia, (Ramlan & Adnan, 2016) found Islamic banks more profitable than conventional banks. (Sukmana & Febriyati, 2016) on their research found conventional banks' CAR, ROA, BOPO, NPL ratios are higher but LDR ratio lower than Islamic banks in Indonesia. (Ibrahim, 2015) said conventional banks in United Arab Emirates (UAE) are better in terms of profitability and liquidity but Islamic banks are doing well in overall performance and stability. (Milhem & Istaiteyeh, 2015) found that Islamic banks are less profitable, less effective, more liquid but less risky than conventional banks in Jordan. (Beck, Kunt, & Merrouche, 2013) found that Shariah compliant finance differs from conventional finance in five principles and they are: prohibition on riba, prohibition on gharar, prohibition on financing in illicit activities, principle of profit-loss sharing and principle of real economic transaction.

Table 1: Summary of Literature review

Writer	Sample	Time Period	Methodology	Ratios/ Variables	Findings
(Ramlan & Adnan, 2016)	5 Banks (3 Islamic banks & 2 conventional banks) of Malaysia	2006 to 2011	T-test Regression Correlation	Dependent Variable: ROA,ROE Independent Variable: TE to TA, TL to TA, D to TA	“Islamic banks are more profitable than conventional banks.”
(Moin, 2013)	6 Banks (1 Islamic bank & 5 conventional banks) of Pakistan	2003 to 2007	Ratio Analysis T-test F-test	Profitability: ROA,ROE,PER Liquidity: LDR, CPIDR, LAR	“Islamic bank is less profitable, more solvent, less efficient. But there is no significant

Writer	Sample	Time Period	Methodology	Ratios/ Variables	Findings
				Solvency: DER, DTAR, EM Efficiency: AU, IOER, OE	difference in liquidity.”
(Rana, Hossain, & Rekha, 2016)	8 Banks (4 Islamic bank & 4 conventional banks) of Bangladesh	2013 to 2014	Ratio Analysis	Profitability: ROAA, ROAE, PEM Liquidity: CR, CAR, LDR, NLTA	“Islamic Banks are better in financial performance than conventional banks in Bangladesh.”
(Islam & Ashrafuzzaman, 2016)	10 Banks (5 Islamic bank & 5 conventional banks) of Bangladesh	2009 to 2013	Ratio Analysis, Tabular Analysis, T-test	CAPA, LOCA, LOA, OEA, IED, NIA, IIA, LQA, LQD	“No significant difference regarding capital adequacy, management capability and earnings, but significant difference in asset quality.”
(Zaheer & Jamil, 2016)	10 Banks (5 Islamic bank & 5 conventional banks) of Pakistan	2006 to 2014	Ratio Analysis	Profitability: ROA, ROE, EM Liquidity: Cash to Assets, Investment to Assets, Advances to Assets Leverage: Capital Ratio, Breakup Value, Deposit to Equity	“Conventional banks are performing well compared to Islamic banks.”
(Islam, Alam, & Hossain, 2014)	15 Banks (4 Islamic bank & 11 conventional banks) of Bangladesh	2009 to 2011	Ratio Analysis	ROA, ROE	“Conventional banks are more profitable than Islamic banks.”
(Sukmana & Febriyati, 2016)	35 Banks (11 Islamic bank & 24 conventional banks) of Indonesia	January 2004 to July 2014	Ratio Analysis T-test	CAR, ROA, BOPO, NPL, LDR	“Conventional banks’ CAR, ROA, BOPO and NPL are higher than Islamic banks, but LDR is lower.”



Writer	Sample	Time Period	Methodology	Ratios/ Variables	Findings
(Uddin, Ahsan, & Haque, 2017)	10 Banks (5 Islamic bank & 5 conventional banks) of Bangladesh	2010 to 2014	Ratio Analysis	TE to TA, Loan loss Reserve Ratio, T.OPEX to T.OPINC, Net Profit to TA, Net Profit to TE	“There is no significant difference between conventional banks and Islamic banks except management and asset quality.”
(Ibrahim, 2015)	2 Banks (1 Islamic bank & 1 conventional banks) of UAE	2002 to 2006	Ratio Analysis	Profitability: ROI, ROE, ROA Liquidity: Cash & Deposit to TA, Customer Deposit to TA, Equity to TA	“Conventional bank (Bank of Sharja) performed well interms of liquidity, profitability, management capacity, capital structure. But Islamic bank (Dubai Islamic Bank) performed well in performance and overall stability.”
(Milhem & Istaiteyeh, 2015)	16 Banks (3 Islamic bank & 13 conventional banks) of Jordan	2009 to 2013	Ratio Analysis T-test	Profitability: ROA, ROE, PER Liquidity: CDR, LDR, CR, CAR Risk & Solvency: DER, DTAR, EM, LDR Efficiency: AU, IER, OE	“Islamic banks are less profitable, more liquid, less risky and less efficient than conventional banks.”
(Paul, Bhowmik, Islam, Kaium, & Masud, 2013)	10 Banks (5 Islamic bank & 5 conventional banks) of Bangladesh	2008 to 2012	Ratio Analysis T-test F-test	Profitability: ROA, ROE, PER, NPM, EPS, Profit per Branch, Profit per Employee Liquidity: LDR, LAR	“Islamic banks are less profitable, on 2008 & 2009 but more profitable in 2011 & 2012. However there is no significant difference in liquidity.”

Methodology

Sample and Source of Data

This study is based on 30 listed banks from DSE of which 7 are Islamic banks and 23 are conventional banks. The period of 2010 to 2018 (3rd Quarter of 2018) has been selected as sample years. Thus the total sample size is 270 bank-years. The financial data of those banks are collected from their respective consolidated profit and loss accounts and consolidated balance sheet from the annual reports.

Methodology

Ratio analysis and graphical analysis are selected as methodology of this study. For ratio analysis three ratios have been chosen to describe profitability. Before going to those ratios let us define,

ROA = Return on Assets

ROE = Return on Equity

PER = Profit Expense Ratio

CNI = Comprehensive Net Income

TA = Total Assets

CSE = Common Stock-holders Equity

OPEX = Operating Expense

Return on Assets (ROA)

ROA measures how much dollar a firm (bank) is getting as after tax profit by using one dollar of asset. It also indicates asset utilization capacity. A higher ROA indicates better performance and better asset utilization. On the other hand, lower ROA indicates inefficient utilization of assets as a means of profitability.

$$ROA = \frac{CNI}{TA}$$

Return on Equity (ROE)

It indicates how much dollar an investor is getting as after tax profit by investing one dollar. It also indicates management efficiency. A higher ROE indicates that management is more efficient in term of profitability.

$$ROE = \frac{CNI}{CSE}$$

Profit Expense Ratio (PER)

It measures how much money a firm (bank) is getting as after tax profit by spending one dollar as operating expense. It also indicates cost efficiency. A higher PER indicates that the firm (bank) is more cost efficient and making more profit as compared with expenses.

$$PER = \frac{CNI}{OPEX}$$

For additional analysis Regression Analysis has been selected. So a model is developed:

Dependent Variables

Return on Assets (ROA)

Return of Equity (ROE)

Independent Variables

Total Equity to Total Assets (TETA)

Total Loan to Total Assets (TLTA)

Deposit to Total Assets (DTA)

Debt Equity Ratio (DER)

Model

$$ROA = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e \dots \dots \dots \text{(Model 1)}$$

$$ROE = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e \dots \dots \dots \text{(Model 2)}$$

Where,

B = Beta

X1 = Total Equity to Total Assets (TETA)

X2 = Total Loan to Total Assets (TLTA)

X3 = Deposit to Total Assets (DTA)

X4 = Debt Equity Ratio (DER)

Hypothesis

1. Total Equity to Total Assets (TETA) has significant effect on ROA.

2. Total Loan to Total Assets (TLTA) has significant effect on ROA.
3. Deposit to Total Assets (DTA) has significant effect on ROA.
4. Debt Equity Ratio (DER) has significant effect on ROA.
5. Total Equity to Total Assets (TETA) has significant effect on ROE.
6. Total Loan to Total Assets (TLTA) has significant effect on ROE.
7. Deposit to Total Assets (DTA) has significant effect on ROE.
8. Debt Equity Ratio (DER) has significant effect on ROE.

Findings

In this chapter the profitability of conventional and Islamic banks are being evaluated based on the data that has been collected. The data of ROA, ROE and PER ratios are collected for 23 conventional banks and 7 Islamic banks for each year during the period of 2010 to 2018 and after that the average of ROA, ROE and PER ratios of both conventional and Islamic banks are being calculated for each particular year. The results of the three profitability ratios are interpreted below:

Return on Assets (ROA)

From the graph below it is seen that in 2010 the ROA of conventional and Islamic banks was 2.17% and 0.61% respectively. After that in 2011, ROA of both type of banks declined. But in 2012 ROA of conventional banks continued to decline and on the other hand ROA of Islamic banks started to increase. In 2013 both the ROA of conventional and Islamic banks increased. This increasing trend continued till 2017 (except of slight decline in 2016). Finally in 2018 both the ROA of conventional and Islamic banks declined in wide margin.

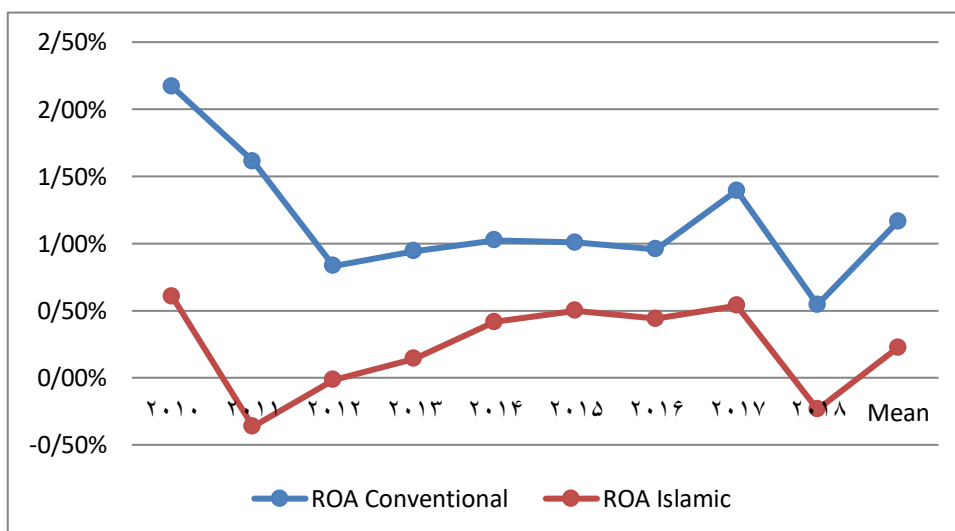


Chart-1:ROA of Conventional and Islamic Banks

Table 2: ROA of Conventional and Islamic Banks in Percentage

Particulars	ROA	ROA
	Conventional	Islamic
2010	2.17%	0.61%
2011	1.61%	-0.36%
2012	0.83%	-0.01%
2013	0.94%	0.14%
2014	1.02%	0.42%
2015	1.01%	0.50%
2016	0.96%	0.44%
2017	1.39%	0.54%
2018	0.54%	-0.24%
Mean	1.16%	0.23%
SD	0.004862192	0.00357716
CV	0.417456364	1.58982103

From the table 2, it is clear that in every year conventional banks' ROA is higher than that of Islamic banks. In 2011, 2012 and 2018 ROA of Islamic banks was negative, indicating average losses in those years. On the other hand conventional banks' ROA was positive in every year, indicating no average loss in a single year. By looking at the mean value of ROA of both types of banks it is also clear that conventional banks are in advantageous position than Islamic banks. The mean value of ROA of conventional banks is 1.16% and on the other hand mean value of ROA of Islamic banks is 0.23% which is 0.93% less than conventional banks. The coefficient of variation (CV) of Islamic banks is also high compared to conventional banks, indicating that Islamic banks ROA is more volatile than conventional banks.

Return on Equity (ROE)

In case of ROE, from the graph below it can be seen that both conventional and Islamic banks ROE is declining from the year 2010 to 2018 except slight increasing in particular years. We can hardly see any significant difference between ROE of two types of banks. More or less in every year ROEs of conventional and Islamic banks are same except in the year of 2012, 2014, 2015 and 2018. Though from the graph it seems that conventional banks are slightly better, it is negligible.

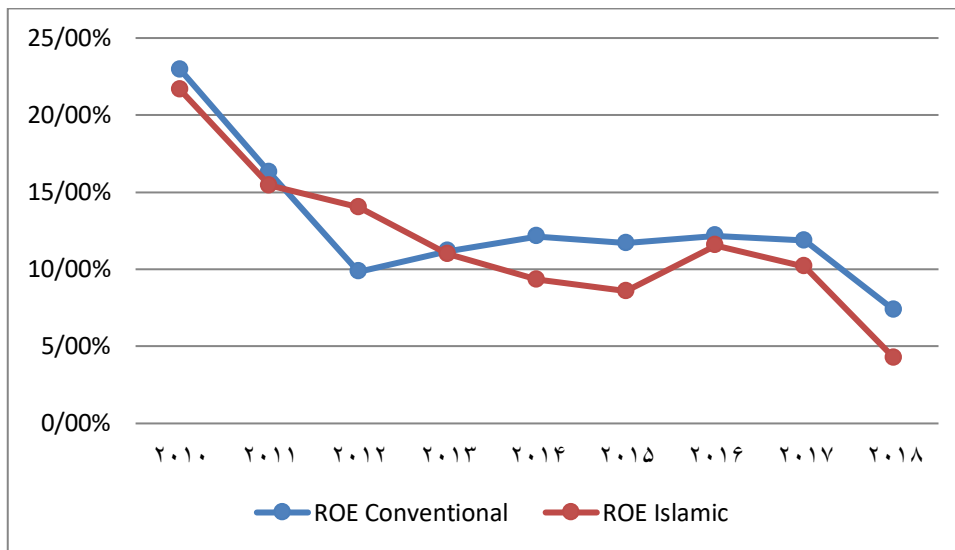


Chart-2: ROE of Conventional and Islamic Banks

Table 3: ROE of Conventional and Islamic Banks in Percentage

Particulars	ROE	ROE
	Conventional	Islamic
2010	22.95%	21.64%
2011	16.28%	15.42%
2012	9.84%	14.01%
2013	11.18%	10.98%
2014	12.12%	9.32%
2015	11.70%	8.57%
2016	12.16%	11.55%
2017	11.86%	10.18%
2018	7.37%	4.25%
Mean	12.83%	11.77%
SD	0.044589232	0.04894195
CV	0.347569693	0.4158625

From the table 3, conventional banks' ROE is slightly higher in every year compared to that of Islamic banks except in the year of 2012. In 2012 Islamic banks' ROE was 14.01% and conventional banks' ROE was 9.84% and the difference is 4.17%. The mean value of ROE for conventional banks is 12.83% and for Islamic banks is 11.77%. And Coefficient of variation (CV) of conventional and Islamic banks is 0.3476 and 0.4159 respectively which is indicating volatility of ROE. Conventional banks are slightly in advantageous position but the result is so insignificant. So in case of ROE there is no significant difference between conventional and Islamic banks.

Profit Expense Ratio (PER)

From the graph below we can see that in 2010 Islamic banks' Profit Expense Ratio was higher than that of conventional banks. But after 2010 conventional banks' PER was higher till 2018. In 2012 and 2016 the PER was almost same. But in year 2010, 2011, 2017 and 2018 there is significant difference between Profit Earning Ratio. Especially in 2011 and 2018 the difference was very significant where in 2018 conventional banks' PER was more than 50% but Islamic banks' PER was close to zero percent.

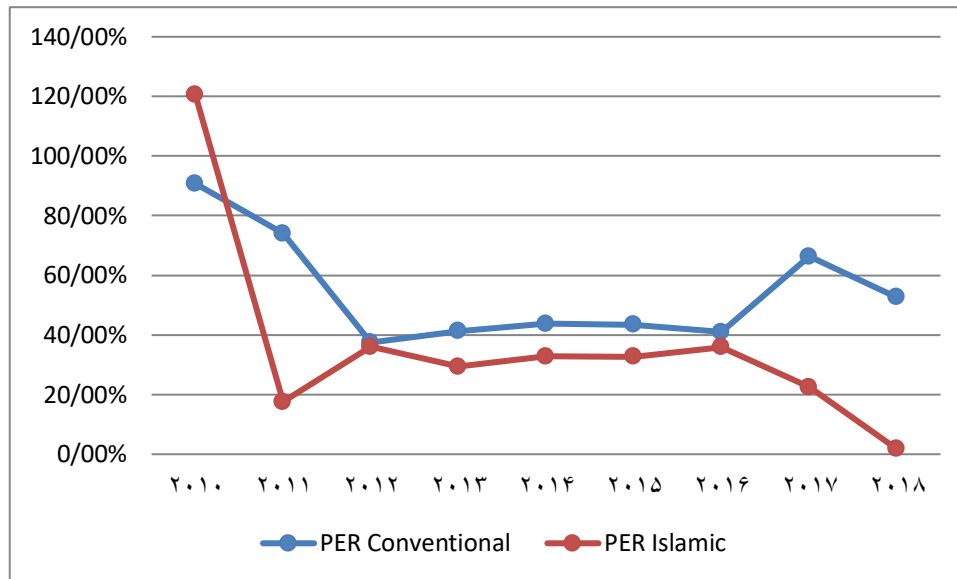


Chart 3: PER of Conventional and Islamic Banks

Table 4: PER of Conventional and Islamic Banks in Percentage

Particulars	PER	PER
	Conventional	Islamic
2010	90.75%	120.49%
2011	74.01%	17.54%
2012	37.47%	36.00%
2013	41.30%	29.39%
2014	43.73%	32.85%
2015	43.40%	32.67%
2016	41.02%	35.94%
2017	66.33%	22.45%
2018	52.63%	1.78%
Mean	54.52%	36.57%
SD	0.184517884	0.33344805
CV	0.338469406	0.91186017

And from the table below we can see the mean value of PER for conventional banks is 54.42% and on the other hand Islamic banks' mean value of PER is 36.57% which indicates that by spending 100 dollar of money conventional banks are earning 54.52 dollar whereas Islamic banks are earning only 36.57 dollar as profit. The CV of PER for Islamic banks is almost 3 times higher than conventional banks which indicates that Islamic banks are more volatile in terms of PER (cost efficiency) than conventional banks. So in case of PER conventional banks are in advantageous position than Islamic banks.

Table 5: Comparison of ROA, ROE & PER

Particulars	ROA	ROA	ROE	ROE	PER	PER
	Conventional	Islamic	Conventional	Islamic	Conventional	Islamic
Mean	1.16%	0.23%	12.83%	11.77%	54.52%	36.57%
SD	0.004862192	0.00357716	0.044589232	0.04894195	0.184517884	0.33344805
CV	0.417456364	1.58982103	0.347569693	0.4158625	0.338469406	0.91186017

Finally in comparing ROA, ROE & PER of conventional banks with that of Islamic banks we can see (from the table 5) that the CV of ROA for Islamic banks is almost 4 times higher than that of conventional banks. So the average ROA of conventional banks is better than average ROA of Islamic banks. Similarly the CV of PER of Islamic banks is almost 3 times greater than that of conventional banks. So here also average PER of conventional banks is greater than that of Islamic banks. But in case of ROE we cannot find any significant difference between conventional and Islamic banks as the CV and mean value are almost same for the two types of banks. So there is no significant difference in case of ROE of conventional and Islamic banks.

Additional Analysis

Table 6: Descriptive Statistics (Conventional Banks)

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROE	207	.00	.41	.1283	.06197
ROA	207	.00	.04	.0111	.00649
TETA	207	.03	.15	.0847	.02056
TLTA	207	.11	4.29	.6831	.26337
DTA	207	.07	.88	.7690	.09053
DER	207	5.48	27.62	11.5423	3.32242
Valid N (listwise)	207				

Table 7: Descriptive Statistics (Islamic Banks)

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROE	63	.00	.31	.1177	.05942
ROA	63	-.10	.03	.0023	.02228
TETA	63	-.95	.13	-.0190	.25309
TLTA	63	.03	7.57	.7987	.88421
DTA	63	.10	.99	.8088	.10769
DER	63	-12.28	28.39	11.1568	7.87463
Valid N (listwise)	63	-	-	-	-

From the Descriptive Statistics Table (above) of conventional and Islamic banks we can see that mean value of ROE of conventional banks is 12.83% and on the other hand for Islamic banks it is 11.77%. The mean value of another dependent variable, ROA of conventional and Islamic banks are 1.11% and 0.23% respectively. In both case conventional banks ROA and ROE are higher than those of Islamic banks.

Return on Assets (ROA)

Table 8: Model Summary (Conventional Banks- ROA)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.563 ^a	.317	.304	.00542

a. Predictors: (Constant), DER, TLTA, DTA, TETA

Table 9: Model Summary (Islamic Banks- ROA)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.746 ^a	.557	.527	.01533

a. Predictors: (Constant), DER, TLTA, DTA, TETA

Table 10: ANOVA^b (Conventional Banks- ROA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.003	4	.001	23.489	.000 ^a
	Residual	.006	202	.000		
	Total	.009	206			

a. Predictors: (Constant), DER, TLTA, DTA, TETA
 b. Dependent Variable: ROA

Table 11: ANOVA^b (Islamic Banks- ROA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.017	4	.004	18.238	.000 ^a
	Residual	.014	58	.000		
	Total	.031	62			
a. Predictors: (Constant), DER, TLTA, DTA, TETA						
b. Dependent Variable: ROA						

Table 12: Coefficients^a (Conventional Banks- ROA)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		
	B	Std. Error	Beta			Lower Bound	Upper Bound	
1	(Constant)	-.012	.008		-1.529	.128	-.028	.004
	TETA	.181	.047	.574	3.875	.000	.089	.274
	TLTA	.000	.001	.008	.131	.896	-.003	.003
	DTA	.010	.004	.139	2.355	.019	.002	.018
	DER	7.185E-6	.000	.004	.025	.980	.000	.001
a. Dependent Variable: ROA								

Table 13: Coefficients^a (Islamic Banks- ROA)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		
	B	Std. Error	Beta			Lower Bound	Upper Bound	
1	(Constant)	-.016	.017		-.969	.337	-.050	.017
	TETA	.069	.012	.787	5.786	.000	.045	.093
	TLTA	.004	.003	.147	1.416	.162	-.002	.009
	DTA	.020	.024	.096	.824	.413	-.028	.068
	DER	5.922E-5	.000	.021	.146	.884	.000	.001
a. Dependent Variable: ROA								

Regression Analysis (ROA): From the Model Summary Table 8 and 9, the R Square value of ROA for conventional banks is 31.7% and for Islamic Banks it is 55.7%. So it can be said that 31.7% of conventional banks' ROA is explained by independent variables and 55.7% of Islamic banks' ROA is explained by independent variables.

From the ANOVA Table 10,11 the mean values of dependent variable (ROA) and independent variables are significant both for conventional and Islamic banks.

Finally from the Coefficients Table 12 of conventional banks we can see that only TETA and DTA have significant effect on ROA. On the other hand from the Coefficients Table 13 of Islamic banks we can see that only TETA has significant relationship with ROA.

Return on Equity (ROE)

Table 14: Model Summary (Conventional Banks- ROE)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.259 ^a	.067	.049	.06044
a. Predictors: (Constant), DER, TLTA, DTA, TETA				

Table 15: Model Summary (Islamic Banks- ROE)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.450 ^a	.202	.147	.05486
a. Predictors: (Constant), DER, TLTA, DTA, TETA				

Table 16: ANOVA^b (Conventional Banks- ROE)

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	.053	4	.013	3.637	.007 ^a
	Residual	.738	202	.004		
	Total	.791	206			
a. Predictors: (Constant), DER, TLTA, DTA, TETA						
b. Dependent Variable: ROE						

Table 17: ANOVA^b (Islamic Banks- ROE)

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	.044	4	.011	3.681	.010 ^a
	Residual	.175	58	.003		
	Total	.219	62			
a. Predictors: (Constant), DER, TLTA, DTA, TETA						
b. Dependent Variable: ROE						

Table 18: Coefficients^a (Conventional Banks- ROE)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		
	B	Std. Error	Beta			Lower Bound	Upper Bound	
1	(Constant)	.115	.089		1.297	.196	-.060	.290
	TETA	-.189	.522	-.063	-.361	.718	-1.218	.841
	TLTA	.002	.016	.010	.151	.880	-.029	.034
	DTA	.115	.047	.169	2.439	.016	.022	.209
	DER	-.005	.003	-.285	-1.639	.103	-.012	.001

a. Dependent Variable: ROE

Table 19: Coefficients (Islamic Banks- ROE)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B		
	B	Std. Error	Beta			Lower Bound	Upper Bound	
1	(Constant)	.040	.060		.672	.504	-.079	.159
	TETA	.156	.043	.664	3.635	.001	.070	.242
	TLTA	-.002	.009	-.031	-.221	.826	-.021	.017
	DTA	.158	.086	.287	1.831	.072	-.015	.331
	DER	-.004	.001	-.545	-2.835	.006	-.007	-.001

a. Dependent Variable: ROE

Regression Analysis (ROE): From the Model Summary Table 14 and 15, the R Square value of ROE for conventional banks is 6.7% and for Islamic Banks it is 20.2%. So it can be said that 6.7% of conventional banks' ROE is explained by independent variables and 20.2% of Islamic banks' ROE is explained by independent variables.

From the ANOVA Table 16 and 17, the mean values of dependent variable (ROE) and independent variables are significant both for conventional and Islamic banks.

Finally from the Coefficients Table 18 of conventional banks we can see that only DTA has significant relationship with ROE. On the other hand from the Coefficients Table 19 of Islamic banks we can see that only TETA & DER have significant relationship with ROE.

Conclusion and discussion

This research has empirically evaluated and compared the profitability of conventional banks with that of Islamic banks by taking three profitability ratios: ROA, ROE and PER. It has been found that ROA and PER of conventional banks are significantly higher than

those of Islamic banks. Though ROE of conventional banks is little bit higher than that of Islamic banks, there is no significant difference found.

Finally it can be said based on empirical result that conventional banks are more profitable than Islamic banks in Bangladesh.

Moreover it is also found that for conventional banks out of four independent variables Total Equity to Total Assets (TETA) and Deposit to Total Assets (DTA) significantly affect ROA but for Islamic banks out of four independent variables only Total Equity to Total Assets (TETA) affects ROA significantly. For conventional banks Deposit to Total Assets (DTA) affects ROE significantly and for Islamic banks Total Equity to Total Assets (TETA) and Debt Equity Ratio (DER) affect ROE significantly.

Recommendation

This paper suggests that conventional banks are more profitable than Islamic banks in Bangladesh and thus all Islamic banks should more focus on profitability through efficient use of their management. Introducing new branches and card system, they can reach to the rural people of Bangladesh. There are more scopes for further research in this topic by taking more ratios and different methods as the popularity of Islamic banking is increasing day by day. Moreover further research can be done in this topic for other countries as well.

References

- Beck, T., Kunt, A. D., & Merrouche, O. (2013). Islamic vs. conventional banking: Business model, efficiency and stability. *Journal of Banking & Finance*, 37, 433-447.
- Hossain, D. A. (2019). Intellectual Capital (IC) Disclosing Pattern of a Conventional Bank having Islamic Banking Window: Longitudinal Case Study. *International Journal of Innovative Science and Research Technology*, 4(12), 974-981. Retrieved from <https://ijisrt.com/intellectual-capital-ic-disclosing-pattern-of-a-conventional-bank-having-islamic-banking-window-longitudinal-case-study>
- Ibrahim, M. (2015). A Comparative Study of Financial Performance between Conventional and Islamic Banking in United Arab Emirates. *International Journal of Economics and Financial*, 5(4), 868-874.
- Islam, K. A., Alam, I., & Hossain, S. A. (2014). Examination of Profitability between Islamic Banks and Conventional Banks in Bangladesh: A Comparative Study. *Research In Business And Management*, 1(1), 78.
- Islam, M. U., & Ashrafuzzaman, M. (2016). A Comparative Study of Islamic and Conventional Banking in Bangladesh: Camel Analysis. *Journal Of Business And Technology (Dhaka)*, 10(1), 73-91.

- Milhem, M. M., & Istaiteyeh, R. M. (2015). Financial Performance of Islamic And Conventional Banks: Evidence from Jordan. *Global Journal of Business Research*, 9(3), 27-41.
- Moin, M. S. (2013). Financial Performance of Islamic Banking and Conventional Banking in Pakistan: A Comparative Study. *International Journal Of Innovative And Applied Finance*.
- Paul, S. C., Bhowmik, P. K., Islam, M. R., Kaium, M. A., & Masud, A. A. (2013). Profitability and Liquidity of Conventional Banking and Islamic Banking in Bangladesh: A Comparative Study. *European Journal of Business and Management*, 5(24).
- Ramlan, H., & Adnan, M. S. (2016). The Profitability of Islamic and Conventional Bank: Case Study in Malaysia. *Procedia Economics And Finance*, 35, 359-367.
- Rana, M., Hossain, M. K., & Rekha, R. S. (2016). Profitability and liquidity of conventional banking and Islamic banking in Bangladesh: A comparative study. *International Journal of Applied Research*, 2(9), 318-327.
- Sukmana, & Febriyati, N. (2016). Islamic Banks vs Conventional Banks in Indonesia: An Analysis on Financial Performances. *Jurnal Pengurusan*, 47(1), 81-90.
- Uddin, M. S., Ahsan, M. K., & Haque, A. (2017). Comparisons of Financial Performance of Islamic Banks and Conventional Banks in Bangladesh. *ABC Research Alert*, 5(2).
- Zaheer, R., & Jamil, H. (2016). Performance Comparison Analysis of Islamic and Conventional Banks - Case Study of Pakistan. *Journal of Philosophy, Culture and Religion*, 16, 14-25.

COPYRIGHTS

©2020 The author(s). This is an open access article distributed under the terms of the Creative Commons Attribution (CC BY 4.0), which permits unrestricted use, distribution, and reproduction in any medium, as long as the original authors and source are cited. No permission is required from the authors or the publishers.



HOW TO CITE THIS ARTICLE

Bin Abdullah, J., Sakib, R., Hossain, D., Sakib, I. (2020). A Comparative Evaluation of Profitability of Conventional Banks versus Islamic Banks in Bangladesh. *International Journal of Management, Accounting and Economics*, 7(10), 580-597.

DOI: 10.5281/zenodo.4274900

URL: http://www.ijmae.com/article_119354.html

