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Performance analysis of conventional banking and Islamic banking in Bangladesh: A comparative study

Md. Jahangir Alam[1]

Lecturer of Accounting, Northern University of Business & Technology Khulna.

Abstract: Islamic banking is getting so much popularity in Bangladesh though there are huge number of conventional banks compared to Islamic banks in the country. This research work analyses the overall performance of Islamic banks verses Conventional banks in Bangladesh over the period of 2017-2018.The objectives of this research is to compare the financial performance of Islamic banks to conventional banks in Bangladesh. The study includes as profitability ratios: Return on Average Assets (ROAA), Return on average equity (ROAE), and Profit expense ratio (PEM). And as liquidity ratios: Current Ratio (CR), Current Asset Ratio (CAR), Loan Deposit Ratio (LDR) and Net Loan/ Total Asset Ratio (NLTA). This study shows that the overall performance of Islamic banks is better than that of Conventional banks and the standard deviation of conventional banks is greater than that of Islamic banks.

Keywords: Bangladesh, Conventional Banking, Financial performance, Islamic banking, Ratio Analysis

I. INTRODUCTION

Bangladesh Bank is the central bank of Bangladesh under which there are lots of private commercial banks are working in the country. Those commercial banks are operated country wide with a huge number of branches. Private bank is getting popularity day by day because of the poor performance or customer supports of government banks. After getting independence, With 6 nationalized commercialized banks, 2 State owned specialized banks and 3 Foreign banks, Bangladesh started its journey of banking industry. But now in Bangladesh, there are 56 scheduled banks who are operated under fully control and supervision of Bangladesh Bank which is empowered to do so through Bangladesh Bank Order, 1972 and Bank Company Act, 1991.The are three types of scheduled Banks: (a) State Owned Commercial Banks (SOCBs): There are 4 SOCBs which are fully or majorly owned by the Government of Bangladesh. (b) Specialized Banks (SDBs): there are 4 specialized banks which are now established and operated for specific objectives like agricultural or industrial development. These banks are also fully or majorly owned by the Government of Bangladesh. (c) Private Commercial Banks (PCBs): at present 42 commercial banks are majorly owned by the private entities. PCBs can be classifiedinto two groups: Conventional PCBs: 34 conventional PCBs are now operating in the industry. They are performing the banking functions in conventional fashion i.e interest based operations. Islamic Shariah based PCBs: 8 IslamiShariah based PCBs are operating in Bangladesh and they execute banking activities in accordance withIslamiShariah principles i.e. Profit-Loss Sharing (PLS) mode. Nowadays the number of customers or users of Islamic banks are increasing very rapidly rather than conventional banking. The competitiveness of Islamic banks with the conventional banks gives the initiative to compare the financial performance or ratio analyses between these two extreme systems of banking. The purpose of this paper is to investigate which type of banking is more profitable and what are the possible reasons for superiority for the particular type. At present people are directly and indirectly involved in banking system for different purposes whether conventional or Islamic banking. Although Islamic banking is not very new concept in Bangladesh as it started its journey since 1983, Very few people are aware of its operations. But now Islamic banking is also getting popularity country wide which is the prime concern in this research shown the differences between financial performance of Conventional banking and Islamic banking in Bangladesh.

II. LITERATURE REVIEW

International Association of Islamic Banks (IAIB) defined the Islamic banking as "the Islamic Bank basically implements a new banking concept in that it adheres strictly to the rules of Islamic Shariah in the fields of finance and other dealings." Therefore, the point is obviously clear that Islamic Banking differentiates from Conventional Banking in terms and conditions of its mission, objectives and duties towards society. The Islamic banks take all these duties and responsibilities greater than conventional banks, (Hassan & Adnan, 1998).

Boutheina HASHEM, Hiyam SUJUD (2019) conducted a research work on 'Financial Performance of Banks in Lebanon: Conventional vs. Islamic'. This study compares the performance of Islamic and conventional banking in Lebanon in terms of Return on Assets and Return on Equity over the period 2012-2016. Moreover, it examines whether the internal characteristics of the bank may explain the difference in profitability between two types of banking transactions. In addition, the results of the study are analyzed using a regression analysis applied to a sample of both Islamic and conventional banks to investigate the effects of these variables on bank performance. Furthermore, results show that Islamic banks in Lebanon have better asset adequacy compared to conventional banks.

Miah and Uddin 2017[2] measured the business efficiency and stability of 28 Islamic and 48 conventional banks in Gulf Cooperative Council (GCC) countries based on the data from 2005 to 2018. They adopt various methods i.e., accounting ratios analysis, Stochastic Frontier Analysis (SFA), and ordinary least square regression technique. The study's resultensures that conventional banks are usually more cost efficient whereas Islamic banks are more stable in short-term stability, but there is no such difference among these two in achieving the long-term stability.

Ibrahim et al. (2014) [3] used financial data attained from the annual reports of the sample banks. The study has assessed the performance of six Islamic banks listed at both Dhaka Stock Exchange and Chittagong Stock Exchange. The objectives were to measure the overall performance of these banks, and to make a judgment among different Islamic banks from different variables. The results show that some banks are better than that of others using different ratios. The overall performance of all Islamic banks is satisfactory. The researcher commented that the future of Islamic banks is very optimistic. But for exploration of the market opportunity the Islamic banks need to develop market driven approach.

Islam, Alam & Hossain (2014) conducted a research work on 'Examination of Profitability between Islamic Banks and Conventional Banks in Bangladesh: A Comparative Study'. The aim of this research work is to compare the profitability of Islamic banks and conventional banks in Bangladesh. It considers reasons for the difference in profitability. Profitability ratios: return on assets and return on equity is used to identify the superiority in cases of profitability between the two kinds of banks. The study includes 2nd Generation banks and annual reports for the year 2009-2011 is used. The results of the study indicate that conventional banking is more profitable in Bangladesh than Islamic banking. The result of this study denotes that even though Bangladesh is among the biggest Muslim community country in the world, the alertness of consuming Shariah compliance products and services are still little.

Paul *et al* (2013) stated that, to compute the financial ratios, Microsoft Excel were used to appear the objectives of assessing and comparing the profitability and liquidity of Conventional banks and Islamic banks in Bangladesh. The objectives of the study are to assess, compare and comment on the profitability and liquidity of Conventional banks and Islamic banks in Bangladesh. The study found that Islamic Banks are less preferable than Conventional banks in the year 2008 and 2009 in all the profitability indicators. In 2010, Conventional banks had been more profitable than Islamic banks except ROE, PER. In 2011 and 2012, Islamic banks' profitability performance is better than that of Conventional banks in the performance indicators except EPS, Profit per Branch and Profit per Employee. However, there is no substantial difference in liquidity between the two groups of banks.

Ika and Abdullah (2011) [4] directed a comparative study of financial performance of Islamic banks and conventional banks in Indonesia. The paper equaled and examined financial performance of Islamic banks against conventional banks before and after the enactment of Indonesia's Islamic Banking Act No. 21/2008. Financial performance measures were expressed in terms of various financial ratios in which were categorized into profitability, liquidity, risk and solvency and efficiency. To test the hypotheses, Mann-Whitney was employed to compare financial performance of Islamic banks and conventional banks. In general, the study found no major variance in financial performance between Islamic banks and conventional banks, except in case of its liquidity. This indicated that Islamic banks are generally more liquid as compared to conventional ones.

Rayhan, Ahmed & Mondal (2011) [5] conducted a research study named 'Performance Evaluation and Competitive Analysis of State Owned Commercial Banks in Bangladesh'. The wide objective of this study is Performance Evaluation and Reasonable Analysis of state owned commercial banks in Bangladesh. The study reveals that state owned commercial banks in Bangladesh are unable to gain a stable growth, net profit, earning per Share, return on equity, return on assets, net asset value per share but they are capable to attain a stable growth of deposit, loan and advances, equity.

Zia-ur-Rehman (2011) evaluated and compared the performance of conventional and Islamic banks using financial tools. They selected two Islamic and two conventional banks and used bank level data from 2007-10. They have used ratios of liquidity, profitability, credit risk, earnings and assets activity to compare the performance of two types of banks. The study decided that performances of Islamic banks are less active due to inefficiency of management and enhanced operating cost.

Majid, S. Saal&Battisti (2008) made a research for examining efficiency inIslamic and conventional banking: An international comparison. The paper investigates the efficiency level of a sample of Islamic and conventional banks in 10 countries for the period of 1996 to 2002, using an output distance function approach. This study employs an output distance function to observe the efficiency and returns in the scale of Islamic banks relative to conventional banks in the countries that have Islamic banks, namely Malaysia, Sudan, Bangladesh, Tunisia, Jordan, Lebanon, Yemen, Indonesia, Bahrain and Iran for the period 1996-2002. We lastly note that on average, the banks in each of the 10 sample countries display moderate returns to scale. However, the average estimated returns to scale for conventional banks are less than those for Islamic banks, with the exclusion of Malaysia and Jordan. However, while this result recommends that Islamic banks will benefit more from better scale than conventional banks, the average scale economy estimate of 1.052 for all Islamic banks indicates that only moderate gains will be achieved even if Islamic banks strive to increase their scale size.

III. OBJECTIVES OF THE STUDY

The study was conducted in the following objectives:

a) To focus thesymptoms of Islamic banking system and Conventional banking system.
b) To analyze the performance of Conventional banks and Islamic banks.
c) Showing the financial comparison between the Conventional banks and Islamic banks.
d) To keep some suggestions, findings and recommendations of Conventional and Islamic banks.

IV. METHODOLOGY

The study is conducted on the basis of secondary data which is collected from the published materials especially from the annual reports of banks, journals, internet, books and as well as newspaper, magazines and some others specialized books. For conducting the research 4 conventional banks (Government Banks and Private Commercial Banks) and 4 Islamic banks have been selected randomly, where study period for the banks from 2017 to 2018. The selected banks are:Dhaka Bank Ltd. Sonali Bank Ltd. AB Bank Ltd. AndAgrani Bank Ltd. as conventional bank. and Islami Bank Bangladesh Ltd., EXIM Bank Ltd., Social Islami Bank Ltd, and Al-ArafahIslami Bank Ltd. as Islamic Bank. Convenience sampling was employed in this study**.**From the secondary data of these selected banks have been calculated for mean variation and standard deviation as well. After getting mean and standard deviation of these banks for 2017 & 2018, it is to say which is financially more efficient.

V. SELECTED RATIOS

For the purpose of analyses, we classified ratios into the following categories: (1) Profitability ratios (2) Liquidity ratios (3) Risk and solvency ratios (4) Capital Adequacy Ratios (5) Operational Ratios. The ratios used in the study are now mentioned and briefly discussed.

6.1. PROFITABILITY RATIOS

Profitability ratio helps to measure the efficiency of management. The ratio shows the return on assets, investments and equities marginal basis. The higher margin of profitability indicates the higher management efficiency. To evaluate the performance of Islamic bank Malaysia, Sammad and Hassan (1999) [6] used three profitability ratios. These ratios were Return on Average Assets (ROAA), Return on Average Equity (ROAE), and Profit Expense Ratio (PEM).This study uses the same Profitability measuring ratios to analyze the performance of both typebanks in Bangladesh.

Return on average assets (ROAA) $=\frac{profit\ \ after\ \ tax}{Avara\,he\ \ assets}$

Return on average equity (ROAE) $=\frac{profit\ \ after\ \ tax}{Avarage\ \ equity}$

Profit Expense Margin (PEM) $=\frac{profit\ \ before\ \ tax}{Operating\ \ expenses}$

6.2 LIQUIDITY RATIOS

Liquidity ratios help to identify the ability to pay short term obligations towards business. Among several measures, liquidity position of banks in Bangladesh is measured by using the following ratios.

Current Ratio (CR) $=\frac{Current\ \ assets}{Current\ \ libilities}$

Current Asset Ratio (CAR) $=\frac{Current\ \ assets}{Total\ \ assets}$

Loan Deposit Ratio (LDR) $=\frac{Total\ \ loans}{Total\ \ deposits}$

6.3 RISK AND SOLVENCY RATIOS

Solvency ratios help to identify the ability to generate cash flows and pay long term debt. If the total value of the total assets of bank is greater than the total value of equity, then it is considered the bank is solvent.Samad& Hassan (1999) [6] used three risks and solvency ratios in their study. These are as follows.

Debt Equity Ratio (DER) $=\frac{Total\ \ debts}{Share\,holders\ \ equity}$

Debt to total asset ratio (DTAR)$=\frac{Total\ \ debt}{Total\ \ assets}$

Loan Deposit Ratio (LDR) $=\frac{Loans}{Deposits}$

6.4 CAPITAL ADEQUACY RATIOS

Capital adequacy ratios help to indicate the healthiness of banks to shock withstanding losses. These ratios identify the already existing problems of banking sectors.Hassan & Bashir (2003) used Equity/Liabilities ratio to measure capital adequacy in their study using following formula.

Equity/Liabilities ratio $=\frac{Avarage\ \ Equity}{Average\ \ Liability}$

6.5 OPERATIONAL RATIOS

Operation ratios are used to measure the efficiency of management to utilize its assets for its operation purpose.To calculate these ratios, the following formulas are used.

Net Interest Margin $=\frac{Net\ Markup\ \ and\ Interest\ \ Income}{Average\ \ Assets}$

Other Operating Income to Average Assets $=\frac{Other\ operating\ \ Income}{Average\ \ Assets}$

Non-Interest Expense / Average Assets $=\frac{Non-Interest\ \ Expense}{Average\ \ Assets}$

VI. ANALYSIS &INTERPRETATION OF DATA

Organization	Conventional Banks				Islamic Banks			
Name of Banks	**AB Bank**	**Dhaka Bank**	**Sonali Bank**	**Agrani Bank**	**IBBL**	**SIBL**	**EXIM Bank**	**AIBL**
Year Ratios	**2018**	**2018**	**2018**	**2018**	**2018**	**2018**	**2018**	**2018**
Return on Average Asset	0.0055	0.0178	0.047	0.0219	0.0097	0.0069	0.0107	0.008
Return on Average Equity	0.0064	0.219	0.0978	0.4228	0.121	0.078	0.109	0.105
Profit Expense Margin	0.07	1.16	0.2265	0.88	1.008	0.805	1.012	1.02
Current Ratio	0.08	0.102	0.075	0.129	0.095	0.088	0.129	1.22
Current Asset Ratio	0.27	0.1512	0.0695	0.12	0.401	0.44	0.27	0.25
Loan Deposit Ratio	0.91	0.324	0.5012	0.87	0.84	0.89	0.872	0.885
Debt Equity Ratio	11.28	11.18	16.14	11.46	11.65	11.65	8.62	10.13

Debt to Total Asset Ratio	0.91	0.922	0.9513	0.92	0.94	0.9301	0.888	0.885
Loan Deposit Ratio	0.89	0.88	0.57	0.87	0.815	0.869	0.869	0.087
Equity to Liability Ratio	0.098	0.0851	0.049	0.054	0.071	0.088	0.121	0.115
Net Interest Margin	0.024	0.027	0.0241	0.0490	0.0217	0.0127	0.125	0.003
Other Operating Income To Average Asset	0.005	0.0028	0.0018	0.0022	0.0018	0.0147	0.005	0.0167
Non-Interest Expense to Average Asset	0.0031	0.0035	0.0032	0.0466	0.002	0.0166	0.0188	4.45
Investment to Equity & Deposit Ratio	0.1632	0.1481	0.3712	0.3901	0.0019	0.742	0.782	0.772
Investment to Liability Ratio	0.16	0.1426	0.345	0.3670	0.0021	0.72	0.823	10.13

Table 1: Ratio analysis at a glance of (sample companies) conventional and Islamic banks of year 2018; [Sources: Self-study from the annual report]

Organization	**Conventional Banks**				**Islamic Banks**			
Name of Banks	**AB Bank**	**Dhaka Bank**	**Sonali Bank**	**Agrani Bank**	**IBBL**	**SIBL**	**EXIM Bank**	**AIBL**
Year Ratios	**2017**	**2017**	**2017**	**2017**	**2017**	**2017**	**2017**	**2017**
Return on Average Asset	**0.0078**	**0.049**	**0.0169**	**-0.033**	**0.0088**	**0.0112**	**0.0121**	**0.016**
Return on Average Equity	**0.0101**	**0.0968**	**0.197**	**-0.672**	**0.1106**	**0.133**	**0.1147**	**0.103**
Profit Expense Margin	**0.76**	**-2.41**	**0.668**	**-2.37**	**1.09**	**1.47**	**1.32**	**1.91**
Current Ratio	**0.065**	**0.04**	**0.112**	**0.0686**	**0.078**	**0.121**	**0.169**	**1.26**
Current Asset Ratio	**0.27**	**0.1451**	**0.1452**	**0.0625**	**0.412**	**0.36**	**0.27**	**0.26**
Loan Deposit Ratio	**0.73**	**0.71**	**0.314**	**0.6309**	**0.79**	**0.83**	**0.84**	**0.883**
Debt Equity Ratio	**9.78**	**51.84**	**12.68**	**32.59**	**10.85**	**11**	**9.03**	**12.76**
Debt to Total Asset Ratio	**0.91**	**0.98**	**0.9272**	**0.97**	**0.9**	**0.9008**	**0.92**	**0.91**
Loan Deposit Ratio	**0.76**	**0.72**	**1.24**	**0.6309**	**0.81**	**0.828**	**0.842**	**0.883**
Equity to Liability Ratio	**0.012**	**0.0512**	**0.0811**	**0.0421**	**0.069**	**0.089**	**0.105**	**0.082**
Net Interest Margin	**0.025**	**0.0502**	**0.0273**	**0.0223**	**0.0211**	**0.0122**	**0.113**	**0.121**
Other Operating Income To Average Asset	**0.009**	**0.0026**	**.007**	**0.0019**	**0.0018**	**0.0131**	**0.009**	**0.005**
Non -Interest Expense to Average Asset	**0.0028**	**0.0436**	**.0026**	**0.0025**	**0.033**	**0.0126**	**0.01581**	**0.0146**
Investment to Equity & Deposit Ratio	**0.39**	**0.396**	**0.1585**	**0.2401**	**0.252**	**0.731**	**0.78**	**3.89**
Investment to Liability Ratio	**0.1721**	**0.3098**	**0.1568**	**0.241**	**0.22**	**0.68**	**0.777**	**0.778**

Table 2: Ratio analysis at a glance of (sample companies) conventional and Islamic banks of year 2017.

Organization	**Mean**				**Standard Deviation**	
Name of Banks	**Conventional Banks**		**Islamic Banks**		**Conventional Banks VS Islamic Banks**	
Year Ratios	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**
Return on Average Asset	0.010	0.023	0.012	0.009	0.001	0.010
Return on Average Equity	-0.092	0.187	0.115	0.103	0.147	0.059
Profit Expense Margin	-0.838	0.584	1.448	0.961	1.616	0.267
Current Ratio	0.077	0.097	0.403	0.383	0.230	0.203
Current Asset Ratio	0.141	0.153	0.322	0.340	0.128	0.133
Loan Deposit Ratio	0.606	0.651	0.836	0.872	0.162	0.156
Debt Equity Ratio	26.780	12.515	10.923	10.513	11.213	1.416
Debt to Total Asset Ratio	0.947	0.926	0.908	0.911	0.028	0.011
Loan Deposit Ratio	0.838	0.803	0.841	0.660	0.002	0.101
Equity to Liability Ratio	0.046	0.072	0.083	0.099	0.026	0.019
Net Interest Margin	0.031	0.031	0.065	0.041	0.024	0.007
Other Operating Income To Average Asset	0.002	0.003	0.006	0.010	0.003	0.005
Non -Interest Expense to Average Asset	0.012	0.014	0.019	1.122	0.005	0.783
Investment to Equity & Deposit Ratio	0.238	0.268	1.424	0.574	0.838	0.217
Investment to Liability Ratio	0.207	0.254	0.609	2.919	0.285	1.885

Table 3: Comparative analysis of conventional and Islamic banks of year 2017-2018 on the basis of mean and standard deviation.

Result express that average ROAA and ROAE of Islamic banks at 2018 is .009 and .103 whereas at conventional banks it is .023 and .0187 respectively which indicates that the operating efficiency of Islamic bank on the basis of return is lower than that of conventional bank but at 2017 we can see negative return(-0.092) of conventional banks which indicates the fluctuation of return and lack of efficiency in operating system also. From the mentioned table we can notice that there is declining trend in CR and CAR of Islamic banks while LDR ratio was volatiles. There is an ups and down condition in all the liquidity measure of Conventional banks. However, the values of CR and CAR are higher for Islamic bank during all selected period. This result shows that Islamic banks have lower liquid asset to meet its current obligations. The average CR and CAR of Islamic bank at 2018 are 0.383 and 0.340 as compared to 0.097and 0.153 for Conventional banks and this mean difference is statistically significant. Islamic bank average LDR and DEQ ratio are 0.872 and 10.513 as compared to 0.651 and 12.515 for Conventional banks where we can notice that LDR of Islamic bank is greater than that

of Conventional banks. On the other hand, DEQ is less than that of conventional bank which means liquidity position of Islamic banks is combatively good than conventional banks and debt on equity is lower than that of conventional bank which indicates higher efficiency of management. LDR and NLTAR 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. Overall results of liquidity ratios support the proposition that Islamic banks are more liquid 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 inSharia approved projects. Thirdly, they rely more on their equity in making loans so they lack lending opportunities.

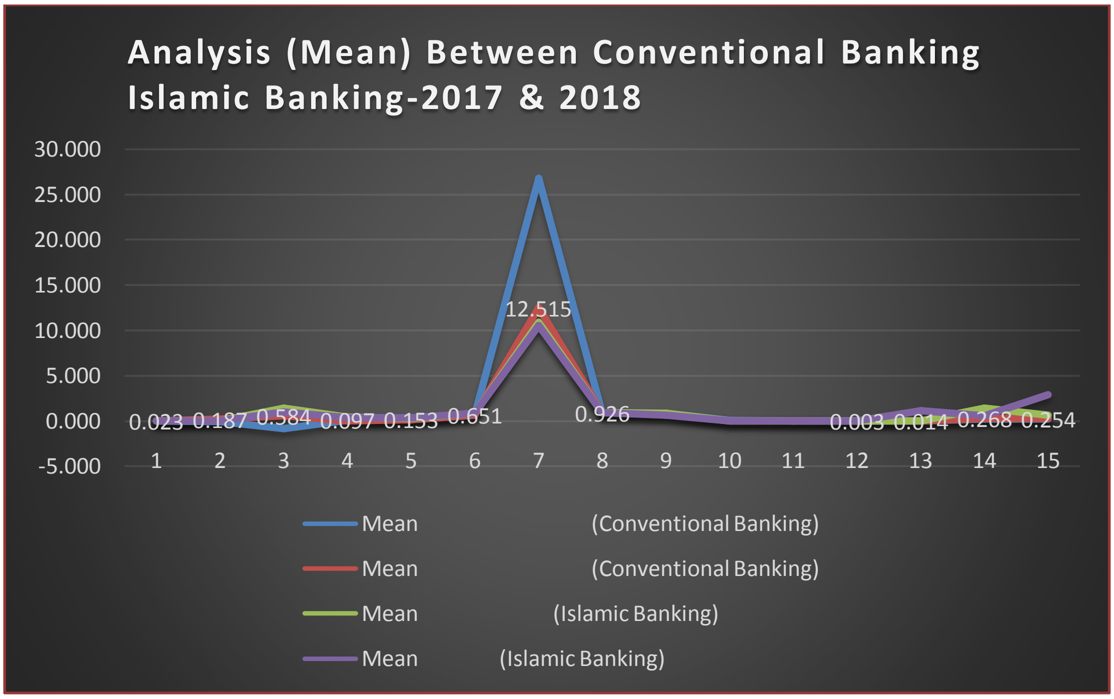

Fig: Mean Analysis Between Conventional Banking and Islamic Banking for the year 2017 & 2018

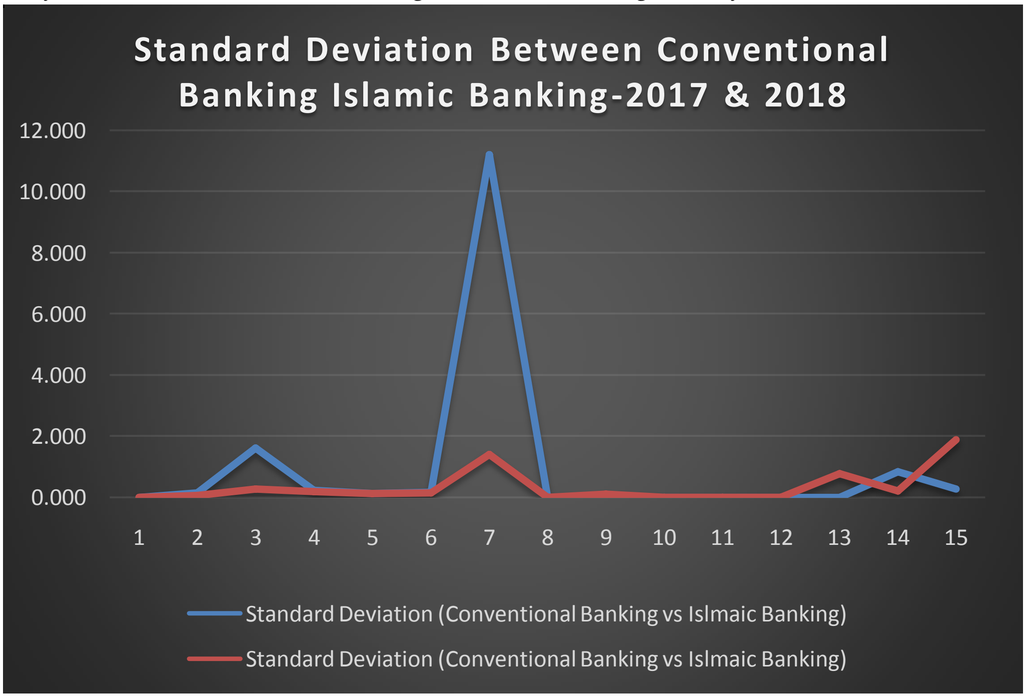

Fig: Standard Deviation Between Conventional Banking and Islamic Banking for the year 2017 & 2018

This figure shows that the deviation of Islamic banks and conventional banks at 2018 is comparatively lower than the year of 2017 because at 2017, The profit expense ratio was negative of conventional banks which was -0.838 but at 2018 it was 0.584. This shows a huge deviation in the average ratio of 2017 and 2018. Another huge deviation occurred for debt equity ratio of conventional bank at 2017 which was 26.780. But at 2018, it was normal which was 12.515. At last stage of the mentioned figure we can see some deviation because of changes of the Investment related ratios.

VII. FINDINGS, RECOMMENDATIONS

6.2. FINDINGS

1. On the basis of Return of Average Assets (ROAA) ratio, we can conclude that Conventional Banks have lower return than Islamic Banks for the year 2017 & 2018 where ROAA represents the net earnings per unit of a given asset. A higher ROAA give a positive signal to the shareholders about better performance of the banks.
2. In 2017 & 2018 there are different results on the basis of return on average Equity. In the year 2017, Islamic Banks have less ROAE than Conventional Banks and in 2018 the result is absolutely reverse.
3. Islamic banks have lower Profit Expense Margin (PEM) ratio than conventional banks for the year 2017 to 2018.
4. According to our secondary data and mean calculation there is a higher positive result for Islamic Banking Systems than Conventional Banking systems on the basis of Net interest margin ratio in both 2017 & 2018. As a result, investors would not feel interest about investing in conventional banks.
5. Islamic Banks have declining trend in the both year for showing CR and CAR while LDR is volatile.
6. There is ups and downs situation in all the liquidity measure of Conventional banks. However, the values of CR and CAR are higher for Islamic bank during entirecertain period.
7. Islamic bank has inferior liquid asset to come across its current liabilities. Islamic banks average CR and CAR are .383 and .340 for the year 2018 as compared to0.057 and .153 for Conventional banks.
8. Lower LDR is positive sign for the banks. Islamic Banks usually shows the lower LDR ratio, which is considered as better. From these data, we can conclude that Islamic Banks are less dependent on borrowed funds than conventional banks.

6.3. RECOMMENDATIONS

In today's business market the Islamic banks are new and having the different methods that are in a starting stage and period but its knowledge curve will increase rapidly with good experiences and time in market.

1. Although Islamic banking has moved out through tremendous advance in the past few decades in Bangladesh and the remaining world, but it is still at its infancy related to the presence of conventional banking.
2. Raising consciousness and clarifying the modes of operations to present and prospective clients can increase profitability and generaleffectiveness of Islamic banks.
3. There should be a starting point of course related to expressed marketing and education program to inform and teach the people very well about Islamic banks and unlikenatures of finance, that are being ready to use.
4. Islamic Banks should improveconsciousness about Islamic Banking Systems among the users more active efforts like seminars and gathering along with different motivational curriculums should be taken and executed.
5. For the future of both Conventional and Islamic Banks, they must try to improve its actionswith the aim of overcome its weaknesses.

VIII. CONCLUSION

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.

To measure the development and capability of any bank is crucial by its performance of meeting all financial rules and regulations. It is usual in banking sector to estimate their intentions and objectives. Most of the Conventional Banks are highly focused to maximize their profits, where on the contrary, the Islamic Banks are also focused in profit maximization, but Islamic Banks try to foster economic and social well-being and to ensure that there is no manipulation of the customers. Both conventional and Islamic Banks have contrasting business contexts. Performance of conventional banks has been compared with Islamic banks and whole banking industry for the year 2017 to 2018. The outcome of the study displays that Islamic banks have been competent in term of returns as compared to conventional banks of the similar dimension. Islamic banks have been producing higher earnings spreads and also share of distribution of profits for the investors is not enough. Islamic banks loans practices are healthier as compared to conventional banks. The motive might be that Islamic banks financing approaches are established on assets and there are no consumption loans which provides a benefit to Islamic banks to have less non-performing assets. The evaluation also demonstrates few concern areas of Islamic banks as related to conventional counterparts. Firstly, and most significantly there is a matter of share of distribution of profits to depositors. The end result states that profit share given to investors by Islamic banks is extreme less than similar dimension conventional banks. This is conceivably against the very principle of Islamic ethical economy where dissemination of profit shall be based on righteousness and impartiality.

Instead major percentage of profit is occupied away by owners. The issue needs to be addressed as Islamic banks are frequently condemned due to charging higher spreads and not distributing appropriate share of profits with their depositors. Islamic banks need to address this issue in order to intensify its reliability as being fair and unbiased. Secondly, the assessment displays there is an issue of liquidity for Islamic banks. The comparison also shows unfortunate investment and improvements position of Islamic banks. The motive is that presently Islamic banks are facing shortage of products for investment and advances. Thirdly, the issue of capital is a concern area for Islamic banks as these banks are less capitalized as compared to conventional banks. Islamic banks are facing these challenges which can be overcome through new product expansion and inserting fresh equity.

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