

Analysis of Financial Performance: A Comparative Study between Private Commercial Conventional & Islamic Banks in Bangladesh

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Abstract: Now a day's most of the depositor, Muslim or Non-Muslim both are interested in the Islamic bank. The rationales of the study for this report are analyzed financial performance of both types of banks, find out differences between deposit management process of these two banks, and investment policy which these two types of banks are following and what is the main objective & achievement of these two banks and overall financial health of these two types of banks as they operate their banking business based on two different principles. The study would focus on the area of financial analysis, performance analysis of private conventional and Islamic banks in Bangladesh. This paper covers profitability analysis, operational efficiency analysis, soundness of management and contribution to society. Each of the above areas would be critically analyzed. For the bindings of security, all the data could not be enclosed in this paper.

Keywords: Conventional, Depositors, Islamic, NCB, Performance

I. Introduction

Performance demonstrates success or failure of any association. By breaking down money related execution we can choose the similar position. In this paper, we will attempt to make a relative investigation of budgetary execution between Private Conventional and Islamic Banks in Bangladesh. Managing an accounting framework is the lifeblood of the entire economy. Banks are the exceptionally old type of money related establishment that channel abundance stores from surplus unit to deficiency unit with regards to a cost called Interest. Saving money business certainly settled on a relationship of Debtor-Creditor between the surplus unit called investors and the bank and between the shortage unit called borrowers and the bank. Our Banking framework is partitioned into various fragments like Islamic keeping money, Conventional banking. Islamic managing an account having particular methods of operations when contrasted with customary banks has been beginning in the 1970s to address the issue of Riba. The committed and clever people, proficient financiers, Islamic business analysts and religious scholars are credited to be a pioneer of Islamic saving money. Its theories and standards are, however, not new having been sketched out in the Holy Qur'an and the Sunnah of Prophet Muhammad (p.b.u.h.) over 1,400 years prior. The rise of Islamic managing an account is regularly identified with the restoration of Islamic money related framework which is absolutely usury (Riba) free. There was no underlying working model to follow up on, with the exception of the possibility that premium based keeping money may be supplanted by betting on the premise of benefit and-misfortune sharing. The essential reason for without Riba money related framework was the end of all premium based exchanges. Exertion for the foundation of this framework occurred when the money related framework everywhere, as additionally the administrative environment, was Riba-based. Islamic managing an account is in operation in Bangladesh from the year 1983. There are 30 private business banks out of which just 7 banks are working on the standards laid by the Islamic Shariah and other 23 banks are customary (premium based) banks. The development of Islamic saving money merits watching. Islamic banks and the others opening Islamic keeping money wing is demonstrating that there is the business opportunity worth taking. The intensity of Islamic manages an account with the routine bank gives the activity to look at the benefit between these two extraordinary frameworks of saving money. The motivation behind this paper is to research which sort of keeping money is more productive and what are the conceivable explanations behind predominance for the specific sort. The Islamic Banking industry has as of late become colossally and has extended broadly, mirroring an expanding enthusiasm for Sharia-consistent items and administrations. Similar execution examination of Private customary and Islamic saving money framework is my primary target. In spite of the fact that we have a place with the Muslim nation yet, ordinary banks are expanding step by step in contrast with Islamic banks. In any case, it is an awesome matter that both ordinary and Islamic managing an account frameworks are making a huge commitment to our economy.

II. Literature Review

Similar investigations of monetary execution of various sorts of managing an accounting framework. Keeping money arrangement of Bangladesh is separated into various fragments. At present, Bangladesh has a blended managing an account framework including nationalized, private and remote business banks. Islamic managing an account ascribes to a keeping money framework or venture that is diligent with Islamic laws and standards (Sharia). Yet, Conventional keeping money does not fit in with Islamic standards. In routine managing an account, the premium is earned by loaning cash. It depends on the relationship between the indebted person and lender i.e. a man stores the cash into the bank or potentially obtains the cash from the bank. Premium is earned on stores and loaning by individual practice. Distinctive creators over the globe have measured budgetary execution of banks in light of various procedures. Of which monetary proportion investigation, drift examination, CAMEL rating, are the most well-known instruments utilized. Almazari (2011) in his study measured the budgetary execution of some chose Jordanian business banks for the period 2005-2009. The study utilized basic relapse examination. In the study, bank estimate, resource administration, and operational productivity were taken as autonomous variable and ward variable was taken as money related execution spoke to by; profit for resources and premium salary. The study presumed that manages an account with higher aggregate scores, credits, resources, and shareholders' value improves productivity execution [1]. Kouser and Saba (2012) thought about the execution of Pure Islamic banks, blended banks and traditional banks in Pakistan utilizing CAMEL rating. The study uncovered the accompanying actualities i) Islamic banks have sufficient capital and have solid resource quality contrasted with different banks in test, ii) Islamic banks all in all have more capable administration contrasted with customary banks, iii) the income of Islamic branches of ordinary banks are more noteworthy than different banks [2]. Nimalathasan (2008) embraced a similar investigation of budgetary execution of keeping money segment in Bangladesh utilizing CAMELS rating framework. The study was done on 6562 Branches of 48 Banks in Bangladesh for the monetary year 1999-2006. The study uncovered that out of 48 banks, 3 banks were evaluated 01 or Strong, 31 banks were appraised 02 or palatable, 7 banks were appraised 03 or Fair, 5 banks were appraised 04 or Marginal and 2 banks got 05 or unsuitable evaluating. 1 Nationalized Commercial Bank (NCB) had unacceptably evaluated and other 3 NCBs had negligible rating [3]. In our nation, Siddique and Islam (2001) attempted a study on business banks of Bangladesh for the monetary year 1980-1995. The study uncovered that the Commercial Banks, all in all, are performing admirably and adding to the monetary advancement of the nation. The normal benefit of every single Bangladeshi bank, all things considered, was 0.09% amid 1980 to 1995. The study inferred that despite the fact that managing an account division adds to the national economy and in addition to the individual association, the exhibitions of various classes of banks were not similarly attractive [4]. In Islamic keeping money speculation instruments, the Islamic monetary connections amongst speculator and borrower are of a participatory in nature (Ahmad 2013). Islamic saving money has picked up prevalence lately. Because of the quick development in Islamic keeping money in these late decades, it calls for open doors for the scholastics to lead contemplate in investigating monetary execution utilizing budgetary proportions [5].

Some past studies explored the execution of Islamic banks within certain period (Sarker, 1999; Wibowo and Saptutyningasih, 2004) [6], [7] while the others considered the execution of Islamic Banks and contrast it and traditional banks execution (Samad, 2004; Rosly and Bakar, 2003; Samad, 2004; Widagdo and Ika; 2007) [8], [9], [10]. Samad et al. (2004) inspected on the money related execution of premium free Islamic managing an account against premium based routine bank in Bahrain. A similar investigation was made as far as their liquidity, hazard and credit hazard and benefit amid the time of 1992-2001 (post-Gulf war period). The outcome demonstrated that there is no huge distinction between Islamic banks and customary manages an account with the difference of its gainfulness and liquidity. Nonetheless, the study finds that there exist critical contrasts in credit performance. Mamatzakis and Remoundos (2003) inspected the determinants of the execution of Greek business banks from 1989 to 2000. They quantified the benefit of the business banks utilizing the proportions of profit for resources (ROA) and profit for value (ROE) [11]. Mamatzakis and Remoundos et al. (2003) considered interior variables, similar to administration strategy choices and outside elements, as the monetary environment to clarify the gainfulness of the banks. The outcomes recommended that the factors identified with administration choices declare a noteworthy effect on the gainfulness of Greek business banks. Subsequent to evaluating the writing we found that is no extensive research including all of 23 Private traditions and 7 Islamic banks. So this paper is only a little activity [11].

III. Methodology And Data Collection

The methodology includes the sources of data and method of data analysis. To make the report, first of all, data was collected from reports and the internet and after that data was analyzed by the following process:

1. For this research paper 23 Private Conventional and 7 Islamic banks in Bangladesh
2. We have excluded State Owned banks from making the comparison more valid as Islamic banks are private sector bank.

3. Newly established 9 banks are also excluded because of lack of sufficient data.

The only secondary source of information has been consulted to make a comparative study between the Private Conventional and Islamic banks in Bangladesh.

Secondary sources: Secondary information was collected from following ways:

1. Scheduled bank statistics.
2. Website of Southeast Bank Limited.
3. The Web sites of scheduled banks.
4. Scheduled Bank Statistics.
5. Annual Reports of Bangladesh Bank.
6. Financial Information of all financial institutions by Bangladesh Bank.
7. Bangladesh Bank Bulletin.

Hypothesis Testing: The hypothesis testing method was used to analyze the data and after analyzing the study we tried to find out whether the hypothesis that given here were right or wrong. Here we also used Regression analysis.

Dependent Variable: Net Profit

Independent Variable: Deposit, Loan, Investment

IV. Figures And Tables

Table 01 shows a steady growth of the total deposit for both Private Commercial conventional and Islamic banks. Both types of banking systems emphasis on deposit collection. Because of the more the deposits the more the investment. The possible reason for aggregate Deposit of conventional banks is to be higher than IB was its vast network and a huge number of branches. And the increasing trend of deposit of Islamic banks is the clients' interest and acceptance for interest-free banking.

Table no.01 Total Amount of Deposit by Types of Banks (Tk. In Millions)

	2008	2009	2010	2011	2012	2013
PCCBs	1082817	1381493	1686082	2058081	2500567	3502547
IBs	388324	504259	610031	775797	1000367	1133963

Source: Bangladesh Bank, Scheduled Bank Statistics, (2007-2014)

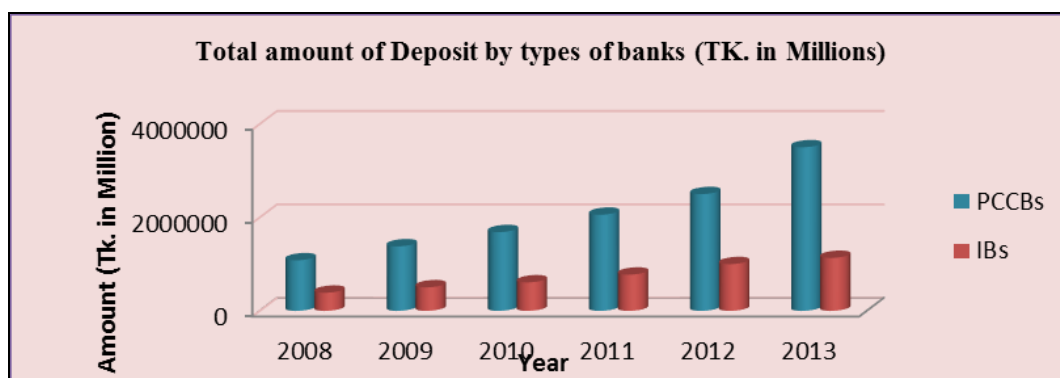


Figure no: 01

Average Deposit per bank measures the amount of deposit collected by each bank. The formula is (Total Amount of Deposit collected by all banks)/ Total number of banks.

Table no. 02 Average Deposit per bank by types of banks (Tk. In Million)

	2008	2009	2010	2011	2012	2013
PCCBs	47079	60064.9	73307.9	89481.8	108720	152285
IBS	55474.9	72037	87147.3	110828	142910	161995

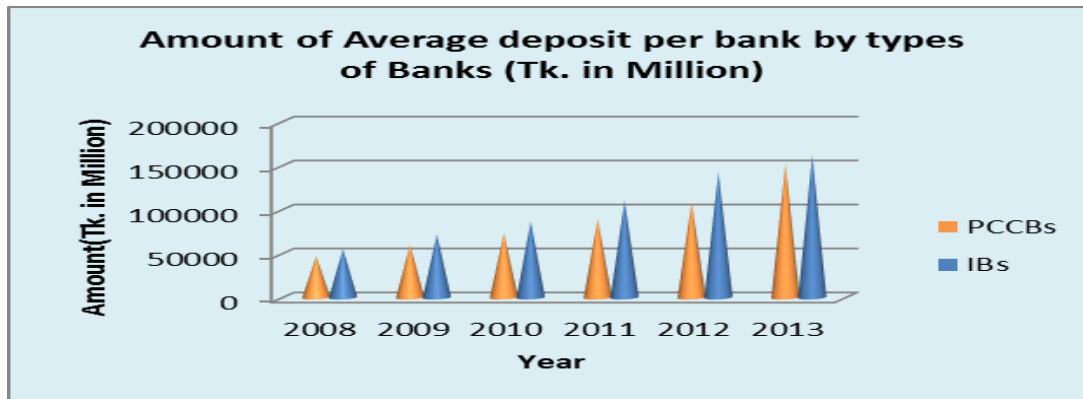


Figure no. 02

Table 02 indicates average amount of deposit collected by per bank from 2008 to 2013 for PCCBs and IBs in Bangladesh. For the bar chart we can say that average deposit collected by IBs is higher than PCCBs throughout the years though the total amount of deposit collected by PCCBs is higher. And the increasing trend of deposit of Islamic banks is the clients' interest and acceptance for interest-free banking.

The growth rate of Deposit measures the percentage at which amount of deposit increase or decrease by next year. The formula is (Current year's deposit – Previous year's deposit)/ Previous year's deposit.

	2009	2010	2011	2012	2013
PCCBs	27.58	22.05	22.06	21.5	40.07
IBs	29.86	20.98	21.17	28.98	13.35

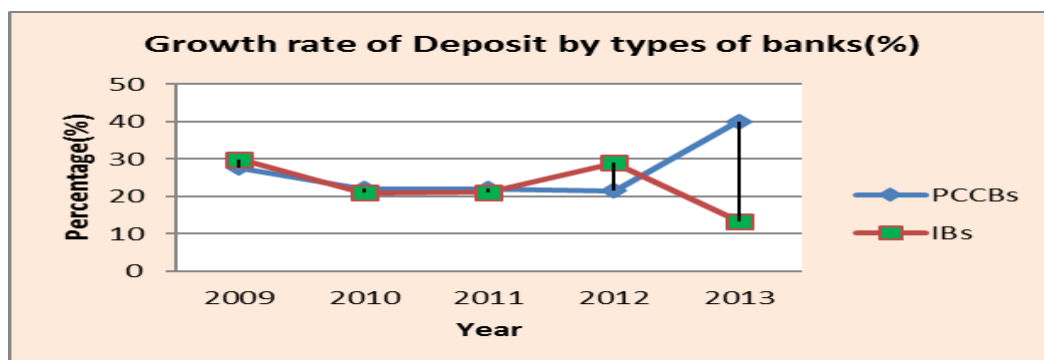


Figure no. 03

Table 03 indicates that the growth rate of deposit of the IBs was higher than Private conventional banks. The trend of a growth rate of deposit fluctuates throughout the years for both types of banks and almost same but Private conventional banks achieved the highest growth rate (40.07%) in 2013. This is a clear indication of how trustworthy the Islamic banks are to the depositors of the country. In this connection, it is worth mentioning that the growth of deposits of conventional banks relates to both primary deposits and derivative deposits while the growth of deposits in Islamic banks is based mostly on primary deposits. While conventional banks expand their deposits by sanctioning loans and advances, Islamic banks for investment purpose depends mostly on trading mode which creates little scope for creating derivative deposits.

The productivity of Employee to Deposit refers to the amount of deposit collected by each employee. We get the following value by using following formula, (Total Deposit/ Number of Employees)

	2008	2009	2010	2011	2012	2013
PCCBs	26.6993	32.3421	34.344	38.2543	46.4349	66.0098
IBs	26.4346	31.5853	34.3738	38.3091	44.4785	46.1073

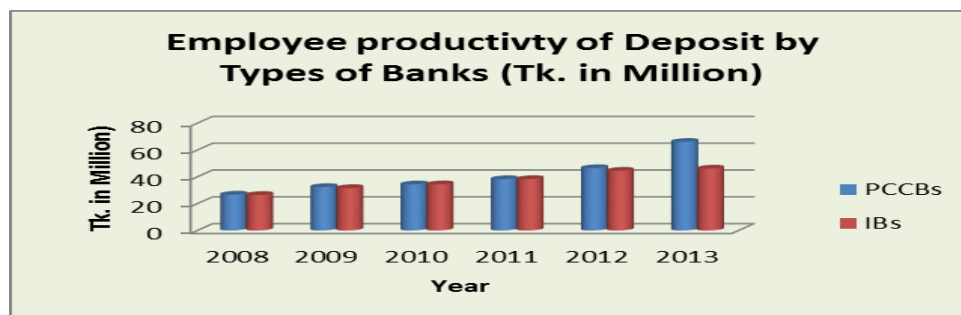


Figure no. 04

The productivity of Employee in a case of Deposit refers to the amount of deposit collected by each employee. Figure 04 shows the productivity of employees for both types of banks. In the case of productivity of employees of deposit of both types of banking systems are showing increasing trend. But in the year of 2013, employee productivity of deposit was higher for PCCBs. So we can say that Private conventional and Islamic banks are running in the same line. The productivity of Branch in terms of Deposit refers to the amount of deposit generated by each branch. We get it by (Amount of deposit/ Number of Branches).

	2008	2009	2010	2011	2012	2013
PCCBs	652.693	739.557	794.572	905.846	1010.33	1343
IBs	949.447	1004.5	1016.72	1137.53	1332.05	1396.51

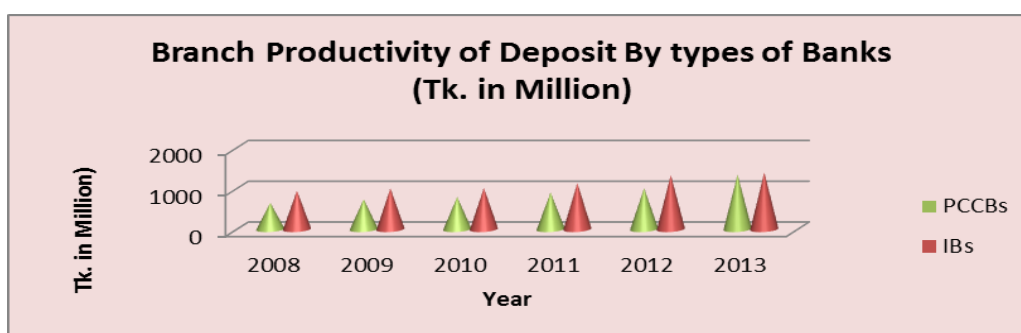


Figure no. 05

The productivity of Branch in terms of Deposit refers to the amount of deposit collected by each branch. Figure 05 shows the productivity of branches for both types of banks. In the case of productivity of branches both of the banking systems are showing increasing trend, which is a good sign. From the bar chart, we can see that Islamic banks are in better position than Private conventional banks as the productivity of branch to deposit is higher for Islamic banks.

	2008	2009	2010	2011	2012	2013
PCCBs	1064962	1141095	1495286	1757239	2000138	2197671
IBs	321580	442044	574254	701445	904325	1039598

Source: Bangladesh Bank, Scheduled Bank Statistics, (2007-2013)

Multiple Regression Analysis of Private Commercial Conventional Banks (Deposit, Loan, Investment, & Net income)

Null Hypothesis (Ho): Net Profit is not related to total Deposit, Loan.

Alternative hypothesis (H1): Net Profit is related with total Deposit, Loan, and Investment.

Here, Dependent variable = Net Profit (Y)

Independent Variables = Total Deposit, Loan, Investment

Variables Entered/Removed			
Model	Variables Entered	Variables Removed	Method
1	Investment, Deposit, Loan ^a	.	Enter
a. All requested variables entered.			
b. Dependent Variable: Profit			

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.967 ^a	.935	.836	61917.58159
a. Predictors: (Constant), Investment, Deposit, Loan				

Interpretation of R square

Here the value of R square comes .935 meaning that 93.5% changes in the dependent variable, Net Profits happening for the changes of the independent variables (Deposit, Loan, Investment). And the least part (1 - .935) = .065 is changed by other factors which are not considered.

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.095E11	3	3.651E10	9.522	.097 ^a
	Residual	7.668E9	2	3.834E9		
	Total	1.172E11	5			
a. Predictors: (Constant), Investment, Deposit, Loan						
b. Dependent Variable: Profit						

Interpretation of Table Value

At a 5% significance level, for 3 numerator degrees of freedom which is regression and for 2 denominator degrees of freedom which is residual, the table value is 19.00.

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	93367.278	181291.632		.515	.658
	Deposit	-.267	.121	-.527	-2.210	.158
	Loan	.183	.250	.546	.730	.541
	Investment	.044	.604	.057	.073	.948
a. Dependent Variable: Profit						

$$\hat{Y} = 92431.150 - 0.267x_1 + 0.183x_2 + 0.044x_3$$

Here, \hat{Y} = 93367.278 is intercept.

Now, the value of bor the slope of x_1 is -.267 it means that Tk. 1 unit change in Deposit net income decreased by .267. x_2 is .183, means that Tk. 1-unit increase in loan increase net income by .183 units and x_3 is .044, means that Tk. 1-unit increase in investment net income by .044 unit

Decision: The overall model is significant as the 75% value of Net income is changed by Deposit and Loan the conclusion comes that the Net Income is related to Deposit and Loan. So we can say that deposit collection influences net income more.

Multiple Regression Analysis of Islamic Banks (Deposit, investment and Net Profit)

Variables Entered/Removed ^b			
Model	Variables Entered	Variables Removed	Method
1	Investment, Loan, Deposit	.	Enter
a. All requested variables entered.			
b. Dependent Variable: Profit			

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992 ^a	.985	.962	5673.18833
a. Predictors: (Constant), Investment, Loan, Deposit				

Interpretation of R square

Here the value of R square comes .985 meaning that 98.5% changes in the dependent variable, Net Profit is happening for the changes of the independent variables. And the least part $(1 - .985) = .015$ is changed by other factors which are not considered.

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.165E9	3	1.388E9	43.131	.023 ^a
	Residual	6.437E7	2	3.219E7		
	Total	4.229E9	5			
a. Predictors: (Constant), Investment, Loan, Deposit						
b. Dependent Variable: Profit						

Interpretation of Table Value

At a 5% significance level, for 3 numerator degrees of freedom which is regression and for 2 denominator degrees of freedom which is residual, the table value is 19.00

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	17999.284	8500.314		2.117	.168
	Deposit	-.004	.166	-.037	-.022	.984
	Loan	.109	.176	1.028	.621	.598
	Investment	.011	.034	.029	.313	.784
a. Dependent Variable: Profit						

$$\hat{Y} = 17999.284 + 0.004 x_1 + .109 x_2 + .011 x_3$$

Here, $\hat{Y} = 17999.284$ is intercepted. Now, the value of bor the slope of x_1 is $-.004$ it means that Tk. 1 unit change in Deposit net income decreased by $.004$. x_2 is $.109$, means that Tk. 1-unit increase in loan increase net income by $.109$ units and x_3 is $.011$, means that Tk. 1-unit increase in investment net income by $.011$ unit

Decision: As the calculated value of F is 43.131, which is greater than the table value so the Null hypothesis is rejected and the alternative hypothesis is accepted. Hence the conclusion comes that the Net Income is related with Deposit, Investment, and Loan.

V. Findings

From our study we have found following outputs, which help to analyze the performance of Private conventional and Islamic banks in Bangladesh:

- The acceptance of interest-free Islamic banking system is increasing gradually which is depicted by positive and increasing growth rate of net income as the net income of Islamic banks is increasing throughout the years.
- From the analysis, we find that, in the case of investment, Private conventional banking systems maintain a positive trend while the trend of investment shows a fluctuating trend for Islamic banks. As reason, we can mention that Islamic banks face some restriction in case of investment.
- There is the steady growth of the total deposit for both conventional and Islamic banks. The possible reason for aggregate Deposit of Private conventional banks to be higher than IB was its vast network and a huge number of branches. And the increasing trend of deposit of Islamic banks is the clients' interest and acceptance for interest-free banking.
- In the case of managing Nonperforming Loan, the conventional banking system is showing efficiency, as a growth rate of NPL and NPL to loan ratio are decreasing and lower than Islamic banks.
- The main motive of a Private conventional bank is to show high return to investors. But in a case of Islamic banks, their main purpose is not to give high return to the investor. From our analysis, we find that ROE of Islamic banks is lower and decreasing throughout the years
- From comparative performance analysis we also find that though the no. of branches and employee of Islamic banks are lower than Private conventional banks the productivity of both branches and employee for both Net profit and investment of Islamic banks are higher than Private conventional banks. This proves the efficiency of management of Islamic Banks.
- From our analysis, we find a decreasing trend of expenditure to income ratio for Islamic banks which represents operational efficiency. But in the case of Private conventional banks, this ratio fluctuates throughout the years. The reason behind high EI ratio is mainly because of loan loss provision, high administrative and overhead expenses, interest suspense for a classified loan.
- ROI, which measures the return earned on the investment. Performance analysis shows the ROI of Private

conventional banks through fluctuates but more stable throughout the years while the ROI of Islamic banks were unstable but higher, which represents the efficiency of banks' management in investment.

- The productivity of employee of Profit of IBs is lower than PCCBs as in Shariah there is a restriction on making an unlimited profit.
- From our analysis, we have found that productivity of NPI by both Employee and Branch of IBs are higher than PCCBs. So IBs should emphasis on proper evaluation, monitoring and follow-up of investment.

VI. Problems And Recommendations

- Islamic banking system is not operating fully based on Islamic Sariah. From our analysis, we have found some deviation.
- Islamic banking system has not yet been successful in devising an interest-free mechanism.
- Islamic banking system is facing problem in financing consumer loan and govt. deficit, as a result, they are unable to make the proper investment as their capacity.
- As we know Islamic banks are bound to make business on the basis of profit and loss sharing but in this case risk factor is so higher. So they are diverting to other techniques that ensure fixed return.
- Islamic banks don't have sufficient legal support of Central bank, Bangladesh Bank.
- Islamic banks don't have the necessary expertise and trained manpower to appraise, monitor, evaluate and audit they project they are required to finance.
- Sometimes Islamic banks face liquidity crisis as there is a restriction on call money borrowing.
- There is the absence of legal framework and support.
- Absence of a sufficient number of Islamic insurance company, which is required to the investment of Islamic banks.

Recommendations are given below:

The performance of different types of banks is not equal and there are some banks which are in need of monitoring to enhance sound banking. It is expected that the overall performance will be improved in near future provided that appropriate actions are taken in some lagged areas. Islamic banks should adopt modern technology, which will improve their efficiency. An efficient and sound banking system is desirable to ensure sustainable economic growth in Bangladesh.

The performance of banking sector in Bangladesh can be improved if the following recommendations are taken into worth consideration:

- The high NPLs to loan ratio reduces the efficiency of banking operation and increases the lending rate for adding high-risk premium which ultimately hampers the economic growth. It also creates an ethical problem for the good borrowers. NPL of Islamic Banks should be reduced.
- The expenditure-income ratio should be reduced as this reduced profit. The losing branches of both Islamic and Private conventional banks have to be taken under proper monitoring by the respective bank. Cost control strategy has to be properly implemented.
- NPI to loan ratio of Islamic Bank Islamic banks should be reduced. For ensuring this Islamic bank should train their employee, use expertise, evaluate and monitor investment.
- The practice of interest exemption for the defaulters has to be stopped. It will improve profitability and efficiency.
- Corporate Governance has to be ensured in all type of banks as this will ensure overall performance of all types of banks.
- There is Shariah council in every Islamic bank. As Islamic banks operate in interest-free mode, so sharia council should strictly follow the rules and regulations of sharia.
- Efficient and sufficient legal framework should be established.
- As Islamic banks can't collect fund from call money market, there should be an alternative system to support in a liquidity crisis.
- As Islamic banks do business based on profit and loss sharing, appraisal, evaluation and monitoring of project are important, which requires expertise and training. So Islamic banks should arrange adequate and proper training for the employee.
- As we know in every business there is a risk. Islamic banks also face risk. To minimize risk factors, support of Islamic insurance is required. But in our country insurance facility is not adequate.
- The amount of investment, returns on investment of Islamic banks are lower and fluctuate in comparison with conventional banks. One of the reasons is that in the case of investment in the capital market there are not enough options. So different types of Islamic financial instruments should be introduced.

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