Global Journal of human-social science: E Economics
Volume 15 Issue 3 Version 1.0 Year 2015
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-460X & Print ISSN: 0975-587X

Superiority of Islamic Banking in Comparison with Conventional Banking in Bangladesh - a Comparative Study

By Monir Ahmmed, Muhammad Mahbubur Rahman, Md. Arif Billah & Md. Amzad Hossain

International Islamic University Chittagong, Bangladesh

Abstract- This paper investigates the financial performance of interest- based conventional commercial banks and interestfree Islamic banks in Bangladesh using descriptive statistics, ttest and test of hypotheses. Data has been processed through 'Statistical Package for Social Science' (SPSS) software. The data consist of accounting figures of 4 interests based conventional commercial banks and 4 interest free Islamic banks from 2009 to 2013. The study revealed mixed results. The study found that conventional commercial banks are superior in terms of performance regarding in commitment to economy and community development, productivity and efficiency where performance of Islamic banks in terms of business development, profitability, liquidity and solvency is superior to that of conventional banks.

Keywords: *performance, superiority, conventional banks, Islamic banks.*

GJHSS-E Classification : *FOR Code: 350399, 349999p*



Strictly as per the compliance and regulations of:

© 2015. Monir Ahmmed, Muhammad Mahbubur Rahman, Md. Arif Billah & Md. Amzad Hossain. This is a research/review paper, distributed under the terms of the Creative Commons Attribution-Noncommercial 3.0 Unported License http://creativecommons.org/licenses/by-nc/3.0/), permitting all non-commercial use, distribution, and reproduction in any medium, provided the original work is properly cited.

Superiority of Islamic Banking in Comparison with Conventional Banking in Bangladesh - a Comparative Study

Monir Ahmmed [α], Muhammad Mahbubur Rahman [σ], Md. Arif Billah [ρ] & Md. Amzad Hossain [ω]

Abstract- **This paper investigates the financial performance of interest- based conventional commercial banks and interest-free Islamic banks in Bangladesh using descriptive statistics, t-test and test of hypotheses. Data has been processed through 'Statistical Package for Social Science' (SPSS) software. The data consist of accounting figures of 4 interests based conventional commercial banks and 4 interest free Islamic banks from 2009 to 2013. The study revealed mixed results. The study found that conventional commercial banks are superior in terms of performance regarding in commitment to economy and community development, productivity and efficiency where performance of Islamic banks in terms of business development, profitability, liquidity and solvency is superior to that of conventional banks.**

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

I. Introduction

Improving the efficiency of the banking sector has been considered an important issue in Bangladesh. In 1986, the government formed the national commission on money banking and credit to find solutions for efficient operation and management of the banking system. In addition, in 1991 a task force was formed to formulate strategies to promote the development the banking and financial sector. In the same period the World Bank has assisted conducting several studies on banking sector reforms in Bangladesh (Shameem, 1995). Based on the expertise during the 1986-1991 periods and suggestions from World's bank studies, the central bank of Bangladesh (CBB) has adopted further reforms such as strengthening the role of the Central Bank in supervision and regulation. The banking sector in Bangladesh comprises four types of Bans, including nationalized commercial banks (NCBs), government-owned specialized banks (DFIs), private commercial banks (PCBs), and foreign commercial banks (FCBs). The Bangladesh banking sector is dominated by NCBs in terms of asset value. However, since 2013 market share of NCBs on the asset sides declined substantially while that of PCBs increased remarkably.

Author α σ ρ: Associate Professor, International Islamic University Chittagong (IIUC). e-mails: moniiuc@yahoo.co.uk, mmr_nsm@48@gmail.com, arifiiuc_1235@yahoo.com
Author ω: Lecturer, International Islamic University Chittagong (IIUC). e-mail: sazzad.amzad@yahoo.com

a) Islamic Banking

Islamic banking is essentially a normative concept and could be defined as conduct of banking in consonance with the ethos of values system of Islam (Ali & Sarker, 1995). This is a banking system whose operation is based on Islamic principles of transactions of which profit and loss (PLS) is a major feature, ensuring justice and equity in the economy. Two basic principles behind Islamic banking are the sharing of profit and loss and the prohibition of the collection and payment of interest. Collecting interest is not permitted under Islamic law. Islamic banking system uses methods of profit/loss sharing to facilitate financial transactions.

b) Conventional Banking

Conventional banking is essentially based on the debtor-creditor relationship between the depositors and the bank in one hand, and between the borrowers and the bank on the other. Interest is considered to be the price of credit, reflecting the opportunity cost of money. Conventional banks allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals.

A conventional bank is a financial intermediary which collects credit from lenders in the form of deposits and lends in the form of loans. A conventional bank holds deposits for individuals and businesses in the form of checking and savings accounts and certificates of deposit of varying maturities while a conventional bank issues loans in the form of personal and business loans as well as mortgages.

II. Objective of the Study

The specific objective of the study is to enlighten on financial performance of interest-based conventional banks and interest-free Islamic banks through business development ratios, profitability ratios, liquidity and solvency ratios, commitment to economy and community, productivity and efficiency ratios comparatively.

© 2015 Global Journals Inc. (US)

III. Rationale of the Study

Banks and financial institutions are contributing in the economic development of Bangladesh through exploring different lucrative economic segments in the form of investment and lending. Banks of our country play roles from conventional and Islamic perspective. Islamic Banks are operating based on Islamic Shariah that does not support interest based banking whereas conventional banks are in favor of interest and conventional rules & regulation. So, a comparative performance analysis of interest-based conventional banks and interest-free Islamic banks of Bangladesh is very rational. From that ground the extensive data based study has been undertaken to make out the comparisons.

IV. Literature Review

The volume of literature on Islamic banking profitability is rapidly expanding and a handsome research work has been done by Islamic researchers during last two decades. As Islamic banking is a new industry and as such sometimes researchers face problem of the scarcity of relevant data. In this section, we have intended to review some of the leading research studies on Islamic and conventional banking. Let us see what previous studies say about the profitability of Islamic banking.

Sudin Haron (1996) discussed the external determinants of the profitability of Islamic banks. He argued that conventional banking theory postulates that the biggest market try to earn more profit. This theory is not absolutely true for Islamic banks. Islamic banks perform well due to efficient use of capital in short-term financing. Similarly, Islamic banks in a competitive market are better managed than those in the monopolistic markets.

Bashir (2000) assessed the performance of Islamic banks in eight Middle Eastern countries. He analyzed important bank characteristics that affect the performance of Islamic banks by controlling economic and financial structure. To examine profitability, the paper used non interest margin (NIM), profit before tax (PBT), return on assets (ROA), and return on equity (ROE) as performance indicators.

Bashir and Hassan (2004) studied the determinants of Islamic banking profitability between 1994 and 2001 for 21 countries. Their study reported that those Islamic banks have a better capital asset ratio as compared to conventional commercial banks which means that Islamic banks are well capitalized. Net-non interest margin (NIM) is interest free income to the Islamic bank such as, bank fees, service charges and foreign exchange that identify the indicators of profitability. Other profitability indicators such as ratio of before tax profit and total assets (BTP/TA), return on assets (ROA), and return on equity (ROE).

Munawar Iqbal (2001 & 2004) studied the growth of Islamic banking industry during 1990-98 by measuring annual growth rates of total equity, total deposits, total investment, total assets and total revenue. Then he used ratio analysis like capital assets ratio, liquidity ratio, cost/income ratio, profitability ratio, return on asset and return on equity ratio and concluded that both return on assets (ROA) and return on equity (ROE) for the Islamic banks are substantially higher than the conventional banks and the two ratios are respectively 2.3 and 22.6 percent for the Islamic banks as against 1.35 and 15 percent for conventional banks.

V. Methodology

Interest-based conventional and interest-free Islamic banks are accounting for the economic development of Bangladesh. For this study four conventional banks (South East bank, Prime bank, Jamuna bank & City bank) and four Islamic banks (Social Islami bank, Al-Arafah Islami bank, EXIM bank & Islami Bank Bangladesh ltd.) have been selected. The period of study is 5 years from 2005 to 2009. These banks have been selected on the basis of their year of establishment and regular data availability to ensure comparability and comprehend the performance of both type of banks established with the same objective. This study also covers international journals and also some books written by renowned writer on banking system and management. Data has been processed through "Statistical Package for Social Science" software or SPSS version 11.5, Microsoft Excel and other version and analysis has been conducted on the basis of secondary data, descriptive statistics, T- test, and test of hypothesis.

VI. Tools of Analyzing Financial Performance

a) Profitability Ratios

Profitability is the ultimate test of managements operating effectiveness and success of a company. Profitability can be judged by the following criteria. Return on asset (ROA), return on equity (ROE), profit expense ratio (PER), are the indicators of measuring managerial efficiency. ROA is net earning per unit of a given asset. It shows how a bank can convert its asset into net earnings. The higher ratio indicates higher ability and therefore is an indicator of better performance.

Similarly, ROE is net earnings per unit equity capital. The higher ratio is an indicator of higher managerial performance. A high PER indicates that a bank is cost efficient and makes higher profit with a given expense. However, profitability is only part of bank performance story.

© 2015 Global Journals Inc. (US)

b) Liquidity and Solvency Ratios

Liquidity ratios measure the short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash. A higher liquidity ratio for the sample bank would indicate a less risky and less profitable bank. Cash deposit ratio, advance deposit ratio, current asset ratio and equity multiplier are the indicators of liquidity and solvency position of banks.

c) Business Development Ratios

Business development ratios are the indicators of financial progress and development which is measured by different indicators such as total assets growth, deposits growth, advances growth and investment growth.

d) Efficiency and Productivity Ratio

Total operating expenses to deposit ratio is the measurement of efficiency and productivity of banks. It indicates economies of scale in banking operation.

e) Commitment to Economy and Community

Commitment to economy and community can be measured by long term loan ratio (LTL), and government bond investment (GBD) ratio. A high LTL indicates a bank commitment for supporting long term development project and higher GBD indicates commitment to the community through investment in government securities also measures high liquidity and less risk.

VII. Statistical Hypothesis

In order to assess and draw the comparison of the financial performance of interest-based conventional banks and interest-free Islamic banks, the assumed null hypothesis is: "**The performance of interest-based conventional banks is superior to that of interest-free Islamic banks**". The hypothesis has been rejected or accepted for each performance ratio separately between conventional and Islamic banks.

a) Analysis & Discussion

The financial performance ratios have been calculated from the annual financial statements of these banks. Ratios of the period 2009-2013 have been calculated for evaluation. The statistical method of t-test has been used at 0.05 % level of significance to identify the significant difference of indicators between interest-based conventional banks and interest-free Islamic banks.

b) City Bank Ltd & Islami Bank Bangladesh Limited

i. *Profitability*

In case of profitability, the null hypothesis has been rejected with respect to the ratios of return on total assets, profit expense ratio, growth of profit and earning per share but accepted only for return on equity (ROE). That means, performance of Islamic bank Bangladesh limited is superior to that of city bank limited. But ROE of City bank limited is superior to that of IBBL. ROE ratio is 2.546.

Table 1 : Statistical result of Profitability

	CITYBL		IBBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
ROA	.0098	.00474	.0254	.03278	-1.009	Rejected
ROE	.4692	.27777	.1482	.02487	2.546	Accepted
Profit Expense Ratio	.3773	.20142	.5724	.08178	-2.449	Rejected
Profit Growth	.1141	.46438	.3119	.38589	-.610	Rejected
EPS	46.9240	27.792	317.1880	247.151	-2.614	Rejected

ii. *Liquidity and Solvency*

In case of liquidity and solvency ratios, the null hypothesis is rejected at 0.05 % level of significance because the statistical t-value is not within accepted region for cash deposit ratio, advance deposit ratio, and equity multiplier ratio. That means liquidity & solvency statement are in favor of IBBL to that of City bank ltd. The calculated value reported that IBBL takes less financial stress and has borrowed fewer funds to convert into asset with the share capital but higher govt. bond investment of CITYBL indicates high liquidity and less risk to that of IBBL. Current ratio is 2.802 & Govt. bond investment ratio is 6.396.

© 2015 Global Journals Inc. (US)

Table 2 : Statistical result of Liquidity and Solvency

	CITYBL		IBBL		Statistical Test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Total Assets Growth	.2204	.15141	.2265	.03253	-0.069	Rejected
Deposits Growth	.2012	.16211	.2295	.02106	-0.335	Rejected
Advances Growth	.2112	.23009	.2568	.05058	-0.361	Rejected
Investment Growth	.3245	.28837	1.0250	2.48399	-0.543	Rejected

iii. *Business development*

Based on the calculated value the null hypothesis is rejected at 0.05% level of significance as the statistical t-value is not within accepted region for all of the ratios. It indicates the performance of IBBL is superior to that of City bank ltd. and making significant contribution in the economic development of Bangladesh.

Table 3 : Statistical result of Business development

	CITYBL		IBBL		Statistical Test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Cash deposit ratio	.0741	.00781	.1565	.03118	-4.885	Rejected
Advanced deposit ratio	.7460	.04807	.8856	.03909	-5.460	Rejected
Current asset ratio	.9723	.00993	.0229	.00278	2.802	Accepted
Equity multiplier	46.1532	5.8226	46.2322	3.03245	-0.022	Rejected
Govt.bond investment	.3084	.18671	.0512	.03996	6.396	Accepted

iv. *Efficiency and Productivity*

In case of efficiency & productivity, Islamic bank ltd. is more efficient than City bank ltd. because total operating expenses to deposits ratio of IBBL is less than City bank limited. It means, economies of scale are in favor of Islamic bank Bangladesh ltd to that of City bank ltd.

Table 4 : Statistical result of Efficiency and Productivity

	CITYBL		IBBL	
	2009-2013		2009-2013	
	Mean	SD	Mean	SD
Total operating expenses to deposits	.0318	.00431	.0191	.00147

v. *Commitment to Economy and Community*

Long-term loan ratio is calculated to measure superiority in economic commitment where the null hypothesis is accepted at 0.05% level of significance it means City bank ltd. is superior to that of IBBL. Long term loan ratio is 2.88.

.

© 2015 Global Journals Inc. (US)

Table 5 : Statistical result of Efficiency and Productivity Statistical output summary (EXIMBL vs. JAMUNABL)

	CITYBL		IBBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Long term Loan ratio	.4995	.17823	.1458	.02865	2.888	Accepted

c) *Jamuna Bank Limited & EXIM Bank Limited*

i. *Profitability*

From the statistical result of profitability it is clear that, the null hypothesis has been rejected with respect to the ratios of return on total assets, return on equity, profit expense ratio and earning per share but accepted only for profit growth. That is performance of EXIM bank ltd. is superior and indicates higher ability and therefore is an indicator of better managerial performance to that of Jamuna Bank ltd. But profit growth of Jamuna bank ltd. is superior to that of EXIM bank ltd.Profit growth ratio is 0.649.

Table 6 : Statistical result of Profitability

	JAMUNABL		EXIMBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
ROA	.0105	.00446	.0164	.00102	-2.470	Rejected
ROE	.3007	.15125	.4926	.11807	-3.613	Rejected
Profit Expense Ratio	.5905	.24441	1.0797	.11040	-4.964	Rejected
Profit Growth	1.0704	2.2491	.3088	.155530	0.649	Accepted
EPS	28.1940	27.313	50.3780	10.69	-1.776	Rejected

ii. *Liquidity and Solvency*

The null hypothesis is rejected at 0.05 % level of significance because the statistical t-value is not within accepted region for cash deposit ratio, advance deposit ratio, current asset ratio and equity multiplier ratio. That means, liquidity & solvency statement is in favor of EXIM Bank ltd. to that of Jamuna bank ltd. The calculated value reports that, EXIM bank ltd. takes less financial stress and has borrowed fewer funds to convert into asset with the share capital but higher investment of Jamuna bank ltd. in government bond indicates high liquidity and less risk. Government bond investment ratio is 20.310.

Table 7 : Statistical result of Liquidity and Solvency

	JAMUNABL		EXIMBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Cash deposit ratio	.0590	.01282	.0966	.02025	-8.366	Rejected
Advance deposit ratio	.7443	.05356	.9527	.03831	-5.492	Rejected
Current Asset Ratio	.9910	.00574	.9953	.00091	-1.568	Rejected
Equity Multiplier	28.3906	9.66	30.22	7.64	-1.672	Rejected
Govt. bond investment	.2820	.01949	.0564	.01426	20.310	Accepted

iii. *Business Development*

Based on the calculated value the null hypothesis is accepted at 0.05% level of significance as the statistical t-value is within accepted region for advances growth and investment growth that indicates performance of Jamuna bank ltd. is superior to that of EXIM bank ltd and making significant contribution in the economic development of Bangladesh. But null hypothesis is rejected for total assets growth and deposits growth that is performance of EXIM bank ltd is superior in capital formation and asset development. Advances growth ratio is 0.565 & investment growth ratio is 1.616.

© 2015 Global Journals Inc. (US)

Table 8 : Statistical result of Business development

	JAMUNABL		EXIMBL		Statistical Test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Total Assets Growth	.1831	.11597	.2963	.07329	-1.238	Rejected
Deposits Growth	.2799	.09822	.3234	.13685	-1.785	Rejected
Advances Growth	.3411	.20625	.2916	.05780	0.565	Accepted
Investment Growth	.4839	.25883	.1760	.13681	1.616	Accepted

iv. *Commitment to Economy and Community*

In measuring superiority in community development and economic commitment calculated output states that the null hypothesis is accepted at 0.05% level of significance as the statistical t-value is within accepted region. It means, Jamuna bank ltd. is superior to that of EXIM bank ltd. Jamuna bank ltd. contributes significantly in the long-term development of different economic segments. Long term loan ratio is 2.763.

Table 9 : Statistical result of Commitment to Economy and Community

	JAMUNABL		EXIMBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Long term Loan ratio	.2459	.09169	.1476	.06486	2.763	Accepted

v. *Efficiency and Productivity*

In case of efficiency & productivity, Jamuna bank ltd. is more efficient than EXIM bank ltd. because the null hypothesis is accepted. It means, economies of scale is in favor of Jamuna bank ltd to that of EXIM bank ltd. Total operating expenses to deposits ratio is 2.637.

Table 10 : Statistical result of Commitment to Economy and Community Statistical output summary (ALARAFBL vs. PRIMEBL)

	JAMUNABL		EXIMBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Total operating expenses to deposits	.0227	.00356	.0186	0,00242	2.637	Accepted

d) Prime Bank Limited & Al-Arafah Islami Bank Limited

i. *Profitability*

For profitability, the null hypothesis has been rejected with respect to the ratios of return on total assets, growth of profit and earning per share but accepted for return on equity and profit expense ratio. That means performance of Prime bank ltd and Al-Arafah Islamic bank ltd. is mixed. Prime bank ltd is superior in the case of cost management and maximizing shareholders' wealth where as Al-Arafah Islamic bank ltd shows better performance in asset return and return to the shareholder through higher growth in profit. ROE ratio is 1.583 & Profit expense ratio is 2.123.

Table 11 : Statistical result of Profitability

	PRIMEBL		ALARAFBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
ROA	.0181	.00369	.0183	0.0482	-0.082	Rejected
ROE	.2715	.05179	.2146	.04956	1.583	Accepted
Profit Expense Ratio	2.0115	1.7554	.2942	.09468	2.123	Accepted
Profit Growth	.2478	.45099	.5374	.54031	-0.768	Rejected
EPS	53.4600	10.309	256.0240	222.582	-2.038	Rejected

© 2015 Global Journals Inc. (US)

ii. *Liquidity and Solvency*

In case of liquidity and solvency ratios the null hypothesis is rejected at 0.05 level of significance because the statistical t-value is not within accepted region for cash deposit ratio, advance deposit ratio but accepted for current asset ratio and equity multiplier ratio. The calculated value reports that prime bank ltd takes less financial stress and has borrowed fewer funds to convert into asset with the share capital with efficiency in liquidity management as well as high liquidity and less risk because of higher investment in government bond. Current asset ratio is 2.020, Equity multiplier is 2.575 & Govt. bond investment is 6.336.

Table 12 : Statistical result of Liquidity and Solvency

	PRIMEBL		ALARAFBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Cash deposit ratio	.0814	.00700	.0992	.01683	-2.341	Rejected
Advance deposit ratio	.8594	.06627	.9220	.09884	-1.472	Rejected
Current asset ratio	.9907	.00213	.9880	.00227	2.020	Accepted
Equity multiplier	49.1262	23.464	24.8007	2.61529	2.575	Accepted
Govt. bond investment	.1682	.06160	.0133	.01825	6.336	Accepted

iii. *Business development*

Based on the calculated value, the null hypothesis is accepted at 0.05% level of significance for deposits growth and investment growth but rejected for total assets growth and advances growth that indicates mixed performance of Prime bank ltd. and Al-Arafah Islamic bank ltd.Deposits growth is 0.030 & investment growth is 4.365.

Table 13 : Statistical result of Business development

	PRIMEBL		ALARAFBL		Statistical Test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Total Assets Growth	.3611	.08382	.9248	1.2035	-0.912	Rejected
Deposits Growth	.3348	.12419	.3330	.12525	0.030	Accepted
Advances Growth	.3447	.11269	.3940	.20321	-0.443	Rejected
Investment Growth	.6773	.31073	.0029	.00575	4.365	Accepted

iv. *Efficiency and Productivity*

In case of efficiency & productivity, Prime bank ltd. is more efficient than Al-Arafah bank ltd.because total operating expenses to deposits ratio of Prime bank ltd. is less than that of Al-Arafah bank ltd. It means from the perspective of economies of scale that Prime bank is more efficient and productive.

Table 14 : Statistical result of Efficiency and Productivity

	PRIMEBL		ALARAFBL	
	2009-2013		2009-2013	
	Mean	SD	Mean	SD
Total operating expenses to deposits	.0132	.0070	.0709	.00785

v. *Commitment to Economy and Community*

Long-term loan ratio is calculated to measure superiority in community development and economic commitment where in long term loan ratio the null hypothesis is rejected it means AL-Arafah bank ltd. has higher contribution in the economic development through long term lending in different economic sectors to that of prime bank ltd. Long term loan ratio is -2.315.

© 2015 Global Journals Inc. (US)

Table 15 : Statistical result of Commitment to Economy and Community Statistical output summary (SIBL vs. SEBL)

	PRIMEBL		ALARAFBL		Statistical Test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Long Term Loan Ratio	.3616	.05439	.4811	.11890	-2.315	Rejected

e) South East Bank Limited & Social Islami BankLimited

i. *Profitability*

Profitability is one of the most important indicators of financial performance. Based on calculation it is vibrant that, the null hypothesis has been accepted with respect to the ratios of return on total assets and return on equity but rejected for profit expense ratio, profit growth and earning per share. That means performance of SEBL and SIBL are mixed. South East bank ltd. is superior in case of better managerial performance but performance of Social Islamic bank ltd. is noteworthy in cost management and profit growth with higher earning per share. ROA is 5.560 & ROE is 1.131.

Table 16 : Statistical result of profitability

	SEBL		SIBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
ROA	.0130	.00452	.0036	.00315	5.560	Accepted
ROE	.1790	.02954	.1163	.10214	1.131	Accepted
Profit Expense ratio	.1554	.04435	.2034	.16911	-0.679	Rejected
Profit growth	.4427	.71457	1.3015	1.38722	-2.125	Rejected
EPS	47.5800	13.58	60.1340	57.79	-.513	Rejected

ii. *Liquidity and Solvency*

The null hypothesis is rejected at 0.05% level of significance because the statistical t-value is not within accepted region for cash deposit ratio, current asset ratio and equity multiplier ratio. That is, liquidity & solvency statement is in favor of Social Islamic Bank ltd. The calculated value reports a significantly higher cash deposit ratio, current asset ratio and equity multiplier ratio that indicates that the bank has borrowed less funds to convert into asset with the share capital to that of SEBL. But null hypothesis is accepted in case of advance deposit ratio that is Southeast Bank ltd. takes more financial stress by making too much loan but lower advance deposit ratio is always encouraging to higher advance deposit ratio. But higher investment of SEBL in government bond indicates high liquidity and less risk. Advance deposit ratio is 0.477& Govt. bond investment is 2.556.

Table 17 : Statistical result of liquidity and Solvency

	SEBL		SIBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Cash deposit ratio	.0563	.00764	.0733	.01740	-3.188	Rejected
Advance deposit ratio	.8555	.04089	.8389	.11221	0.477	Accepted
Current Asset ratio	.9777	.00900	.9916	.00380	-4.336	Rejected
Equity Multiplier	32.28	6.90	33.78	4.53	0.489	Rejected
Govt.bond investment	.1281	.01840	.0273	.00702	2.556	Accepted

iii. *Business development*

Based on the calculated value the null hypothesis is accepted at 0.05% level of significance as the statistical t-value is within accepted region. It indicates the performance of South East bank ltd. is superior to that of Social Islamic bank ltd and it makes significant contribution in the economic development of Bangladesh through higher growth in total assets, deposits and advances but null hypothesis is rejected for investment growth that means investment growth is in favor of SIBL. Investment growth ratio is -1.00.

© 2015 Global Journals Inc. (US)

Table 18 : Statistical result of Business development

	SEBL		SIBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Total assets growth	.2458	.03596	.0900	.17951	1.667	Accepted
Deposits growth	.2542	.07876	.0468	.17391	1.804	Accepted
Advances growth	.2914	.13207	.1005	.08735	3.553	Accepted
Investment growth	.4081	.15988	2020.1214	4039.68	-1.00	Rejected

iv. *Commitment to Economy and Community*

In order to measure superiority in community development and economic commitment, long term loan ratio is calculated where the null hypothesis is accepted at 0.05% level of significance as the statistical t-value is within accepted region. It means South East bank ltd. has superior commitment to economy and community to that of Social Islami bank ltd. Long term loan ratio is 2.442.

Table 19 : Statistical result of Commitment to Economy and Community

	SEBL		SIBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Long term loan ratio	.4488	.07231	.1823	.17602	2.442	Accepted

v. *Efficiency and Productivity*

In case of efficiency & productivity, South East bank ltd. is less efficient than Social Islami bank ltd.because the null hypothesis is rejected it means total operating expenses to deposits ratio of SEBL is higher SIBL. This ratio is 18.933.Insert table-20 here.

Table 20 : Statistical result of Efficiency and Productivity

	SEBL		SIBL		Statistical test	Hypothesis
	2009-2013		2009-2013		t-value	
	Mean	SD	Mean	SD		
Total operating expense to deposits	.0951	.01202	.0199	.00341	18.933	Rejected

VIII. Summery of Findings

City Bank Limited versus Islami Bank Bangladesh Limited

- Islamic bank Bangladesh ltd. is superior in case of higher ability and better managerial performance to that of City bank ltd.
- IBBL takes less financial stress and has borrowed fewer funds to convert into asset with the share capital but higher govt. bond investment of City bank limited indicates high liquidity and less risk to that of IBBL.
- IBBL is superior to that of City bank ltd. and making significant contribution in the economic development of Bangladesh.
- Long-term loan ratio is superior in economic commitment where the null hypothesis is accepted at 0.05% level of significance. It means City bank ltd. is superior to that of IBBL.

Jamuna Bank Limited versus EXIM Bank Limited

- Profit growth of Jamuna bank ltd. Is higher than EXIM bank ltd. share capital but higher investment of Jamuna bank ltd. in government bond indicates high liquidity and less risk.
- The performance of EXIM bank ltd is superior in capital formation and asset development.
- Jamuna bank ltd. is superior to that of EXIM bank ltd. Because Jamuna bank ltd. contributes significantly in the long-term development of different economic segments.

Prime Bank Ltd & Al-Arafah Islami Bank Ltd

- Prime bank ltd is superior in cost management and maximizing shareholders wealth where as Al-Arafah Islami bank ltd shows better performance in asset return and return to the shareholder through higher growth in profit.
- Prime bank ltd takes less financial stress and has borrowed fewer funds to convert into asset with the share capital with efficiency in liquidity management as well as high liquidity and less risk because of higher investment in government bond.

© 2015 Global Journals Inc. (US)

- Deposits growth and investment growth but rejected for total assets growth and advances growth that indicates mixed performance of Prime bank ltd. and Al-Arafah Islami bank ltd.
- AL-Arafah bank ltd. has higher contribution in the economic development through long term lending in different economic sectors to that of prime bank ltd.

South East Bank Ltd & Social Islamic Bank Ltd

- South East bank ltd. is superior in better managerial performance but performance of Social Islamic bank ltd. is noteworthy in cost management and profit growth with higher earning per share.
- Southeast Bank ltd. takes more financial stress by making too much loan but lower advance deposit ratio is always encouraging to higher advance deposit ratio.
- South East bank ltd. is superior to that of Social Islamic bank ltd and making significant contribution in the economic development of Bangladesh through higher growth in total assets, deposits and advances.
- South East bank ltd. has superior commitment to economy and community to that of Social Islamic bank ltd.
- South East bank ltd. is less efficient than Social Islamic bank limited. It means total operating expenses to deposits ratio of SEBL is higher SIBL.

In brief, on the basis of comparative study between conventional banks and Islamic banks, we found,

- Profitability ratio of Islamic banking is higher than conventional banking.
- Liquidity & solvency ratio of conventional banking is higher than Islamic banking.
- Business development ratio is greater in Islamic banks than that of conventional banks.
- Productivity & efficiency ratio indicate economies of scale are in favor of Islamic banking to that of conventional banking.

*Conventional banking is superior to that of Islamic banking in the case of commitment to economy and community development.

IX. Conclusion

This study has investigated the financial performance of conventional commercial banks and Islamic commercial banks in Bangladesh using descriptive statistics, t-test and test of hypotheses. The results show that both conventional & Islamic banks are making significant contribution in the economic development of Bangladesh. The performance study concludes that Islamic banks are superior to conventional banks. But it is not likely that solely Islamic banks are better performing organizations rather conventional banks. Despite some limitations in operational procedures, financial instruments, adequate training & research, motivated employee, Islamic banks deserve the credit of superiority of financial performance. Participatory process in every financing & investment is the root cause of Islamic banks' success. But they should emphasis on the welfare being of the poor and destitute people rather than only profit oriented sectoral development. Islamic banks have to go a long way. Though conventional banks are fully converting or opening windows of Islamic banking but their main focus should be given on both social & economic development of Bangladesh. Alongside conventional banks should come forward in order to enhance rural financial market rather than only urban development through their superior performance in different area.

References Références Referencias

1. Hassan, M. & Ghani, A. (2005). Financial performance of commercial banks: a study of Bahrain banking, *Middle East Business and Economic Review*, Vol.17, No.1, pp.20-28.
2. Rashid, S. & Samad, A. (1996). Portfolio management of the free banks of Illinois: an examination of historical allegations, *Review of Austrian Economics*, Vol. 9, No.1, pp 55-76.
3. Hassan, M. Kabir. (1999). Islamic banking in theory and practice: the experience of Bangladesh, *Managerial Finance*, Vol.25, and Vol.5: 60-113.
4. Samad, Abdus.(2004). Performance of interest free Islamic banks vis-à-vis interest based conventional banks of Bahrain, *IIUM Journal of Economics and Management*, Vol.12, No.2, pp 115-129.
5. Chowdhury, et.al. (1997). Impact of new loan regulations on loan portfolio management in banks, *Bank Parikrama*, Vol.XX11, No.1, March 1999, pp.31-74
6. Khan, M. Fahim.(2006). Financial modernization in 21st century and challenges for Islamic banking, *International journal of Islamic Financial Services*, Vol.1, No.3, pp-35-48
7. Ahmad, Ausaf. (1987). *Development and Problems of Islamic Banks*, Jeddah: Islamic Research and Training Institute, Islamic Development Bank
8. Haron, S. & Shanmugam, B. (1977). *Islamic Banking System: Concepts and Applications*, Singapore: Pelanduk publication.
9. Hassan, M. K., Al-Sharkas, A., & Samad, A. (2004), An empirical study of relative efficiency of the banking industry in Bahrain. *Studies in Economics and Finance*, Vol. 22, No. 2, pp. 40-69.
10. Bashir, A. (1996). Profit-sharing contracts and investment under asymmetric information, *Research in Middle East Economics*, Vol. I, pp. 173-186.

© 2015 Global Journals Inc. (US)

11. Samad, Abdus. (1999), Comparative Efficiency of the Islamic bank Malaysia vis-à-vis Conventional banks. *Journal of Economics and Management*, Vol.7, No.1, pp-112-126.
12. Ministry of Finance. (2008-2012): *Activities of Banks and Financial Institutions*, Government of the People's Republic of Bangladesh, Retrieved from http://www.mof.gov.bd
13. Prime Bank Limited: Annual Report (2009-2013), retrieved from http://www.prime-bank.com.
14. Jamuna Bank Limited: Annual Report (2009-2013), retrieved from http://www.jamunabanbd.com.
15. South East Bank Limited: Annual Report (2009-2013), retrieved from http://www.seblbd.com.
16. The City Bank Limited: Annual Report (2009-2013), retrieved from http://www.thecitybank.com.
17. Al-Arafah Islami Bank Limited: Annual Report (2009-2013), retrieved from http://www.al-arafahbank.com.
18. Export Import Bank Limited: Annual Report (2009-2013), retrieved from http://www.eximbankbd.com.
19. Islami Bank Bangladesh Limited: Annual Report (2009-2013), retrieved from http://www.Islamibanbd.com.
20. Social Islami Bank Limited: Annual Report (2009-2013), retrieved from http://www.siblbd.com.
21. Dhaka Stock Exchange: Prospectus of sleeted banks, Retrieved from http://www.dsebd.org.
22. Khan, A. R. (2008) *Bank Management (A Fund Emphasis)*, Dhaka: Decent Book House.
23. Shameem, A.K.M. (1995), "Impact of Flexible Interest Rate on Savings and Investments", *Bangladesh journal of political Economy,* Vol.13, No. 2, pp.62-78.

Appendix-1:

Statistical output summary (IBBL vs. CITYBL)

© 2015 Global Journals Inc. (US)