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Profitability of State-Owned Commercial Banks in Bangladesh Based on Islamic PLS and Conventional Interests

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ABSTRACT

Purpose: This research compares the profitability of state-owned commercial banks in Bangladesh operating under Islamic Profit-Loss Sharing (PLS) principles with conventional interest-based systems.

Design/Method/Approach: This study uses a comparative quantitative approach, analyzing 10 years of financial data from state-owned commercial banks in Bangladesh. Profitability indicators (ROA, ROE, NPM, EPS) are compared between Islamic PLS and conventional interest-based operations. Statistical tools like t-tests and panel regression are used to identify significant differences and impacts.

Findings: The study finds that state-owned commercial banks in Bangladesh operating under Islamic PLS models generally exhibit more stable but modest profitability than their conventional interest-based counterparts. While Return on Assets (ROA) and Net Profit Margin (NPM) are slightly higher in traditional operations, Islamic banking shows lower volatility and better risk-sharing attributes. The panel regression analysis reveals that the banking model significantly influences profitability, with conventional interest-based systems yielding higher short-term returns, whereas Islamic PLS promotes financial resilience.

Originality/Values: This study uniquely compares profitability between Islamic PLS and conventional interest systems within state-owned banks in Bangladesh. It offers policymakers and bank managers valuable insights on optimizing dual banking operations.

INTRODUCTION

In the 20th century, efforts were made to establish and manage interest-free banks in various regions of Bangladesh. In 1974, the Government of Bangladesh signed the IDB Charter. In 1978, the definition of Islamic banking was approved at the Dakar Conference of the OIC member states held in Senegal. On October 16, 1982, Nurul Islam, the governor of Bangladesh Bank, decided to introduce Islamic banking. In that case, 70% of the capital came from outside the country, and 30% came from local entrepreneurs when establishing Islamic banks. Islamic banking is a Shari`a-compliant system of financial banking activities that is fundamentally based on Islamic principles of profit and loss sharing (PLS) and prohibition on interest collection and payment. Bangladesh has three types of banks: 1. A conventional type of bank, 2. A bank that is fully Shari`a-based 3. There is another type of bank that not only conducts conventional banking but also conducts Shari`a banking activities partly.

Four state-owned commercial banks, Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank in Bangladesh, are doing their business partly with Shari`a compliance. Before starting Shari`a compliance, those profits were comparatively less than the outstanding ones. After Shari`a compliance is implemented in business, its profitability will increase significantly. This is the point of research on why and how its profitability gains significantly. The banking sector in Bangladesh has undergone a significant transformation with the coexistence of Islamic and conventional banking systems. Islamic banks operate based on the principle of profit and loss sharing (PLS), a system rooted in Shari`a law that prohibits usury (riba). Instead, it promotes equity-based financing and risk-sharing, which theoretically aligns the interests of banks with those of their customers. On the other hand, conventional banks operate on an interest-based system in which profit is generated from loans and advances.

This research will also consider the broader economic and regulatory environment in Bangladesh, which influences the performance of these banks. Factors such as regulatory compliance, risk management practices, and customer preferences will be evaluated to provide a comprehensive understanding of profitability dynamics with GR (Growth Rate) and CAGR (Compound Annual Growth Rate).

LITERATURE REVIEW

In the existing literature, bank profitability, which is usually measured by return on assets (ROA) or return on equity (ROE), is generally expressed as a function of internal and external determinants. In many articles, authors have tried to prove that Shari`a-based banking systems are more profitable than conventional ones.

Marker, M. A. A. (1999), in his article on 'Islamic banking in Bangladesh: performance, problems, and prospects', states that "The mode-wise investment situation of the Islamic banks depicts that short-term trade financing based on mark-up has been extensively used. In contrast. Musharaka and Maraba, the two distinguishing modes in which profitability acts exclusively as an allocative device, have a declining share in the portfolio distributions of Islamic banks." On the other hand, he mentioned "Under-reporting of profit by the entrepreneurs to evade taxes widely matters to the application of PLS modes since both Mudaraba and Musharaka re profit-sharing contracts between the bank and the entrepreneurs, maintenance of proper accounting and declaration of actual profit by the entrepreneurs are extremely essential for the bank."

Rafiq, M. R. I. (2016) mentioned in his article 'Determining Bank Performance using CAMEL Rating: A Comparative Study on selected Islamic and Conventional Banks in Bangladesh' that "Bhattacharjee (1989) identified five sets of indicators, such as general business measures, social profitability measures, branch performance measures, employee performance measures, and profitability measures." Again, he says, "According to Bikker (2010), five performance indicators for financial institutions are competition, efficiency, costs, profit, and market structure."

Saad, N. M., Mohamed, M. O., Le, L. S., Handed, M. A. and Ghana, M. A. (2013) mentioned in their article 'Toward Adopting Zero Interest Financing (ZIF) and Profit and Loss Sharing (PLS) Principle in Islamic Microfinance: The Case of Amanah Ikhtiar Malaysia' that, "The main financing product is still Surabaya, i.e. a sale contract between bank and customer with a fixed profit margin for the bank. Flexible profit sharing, which is considered cumbersome to calculate, is of minor importance."

Mamun, M. Z. (2014) mentioned in his article '*prospects and problems of islamic banking from bankers' perspective: a study of bangladesh,"* prospects that, "Conventional banks offering Islamic banking as a parallel service are thought to do so only to add to their profitability, by attracting people who value the Shari`a-based system by enjoying the advantages of the special treatments from the Central bank." Again he said "Since there are no profit-and-loss-bearing securities in Bangladesh, Islamic banks have been allowed to maintain their Statutory Liquidity Requirement (SLR) with Bangladesh bank at the rate of 10% (recently made 11%) of their total deposit liabilities, whereas the requirement is 18% (recently made 19%) for conventional banks in Bangladesh" therefore he shows, "The Islamic financial system employs the concept of participation in the enterprise, utilizing the funds at risk on a profit-and-loss-sharing basis. This does not imply that investments in financial institutions are necessarily speculative."

Fatima, N. and Ibrahim, A. M. (2013) mentioned in their article 'Comparative study of Profitability and Liquidity Analysis of Islamic Banks in Bangladesh' that, "Global conventional banks like HSBC, Standard Chartered Bank, Deutsche Bank, Citibank, etc, have also set up separate Windows/Divisions to structure Islamic financial products and are offering Islamic banking services to their Muslim clients and even to those non-Muslim clients who are interested in profit and loss sharing (PLS) financial instruments. Therefore, what should be the crucial choice of an Islamic bank, whether to make the fundamental choice of profit maximization or to rely more on the assurance of liquidity in any banking business under Islamic principles? The answer could arise when we examine real-world scenarios, i.e., real Islamic banks and their performance, to see how they manage noise liquidity by maintaining handsome profitability." Again, they also show that "There are four main areas where the Islamic banks find it difficult to finance under profit-loss sharing (PLS) scheme: a) participating in long-term low yield projects, b) financing the small businessman, c) granting non-participating loans to running businesses and, d) financing government borrowing."

Tendon, A., Pennaceus, F. and benahmeddaho, R. (2017) mentioned in their article "Does the Profit and Loss Sharing Financing Increase the Performance of Islamic Banks?' that 'Most people in general compare the Islamic finance costs to interest costs; this means that Islamic banks ought to distribute profits that are similar or equal to the profits that conventional banks distribute between investment accounts; the idea of loss is unacceptable for the customers of these banks." They added, "The problem of profit-and-loss sharing funding stems mainly from the possibility of having Islamic banks. They said, 'The success of such an operation is mainly based on the balance between the profitability of these banks and the banking security of the stakeholders, who are the investors, depositors, owners, banking administrators, and banking regulators." They found in the study that "A significant difference between the profitability of the banks that rely on interest rates and those that do not rely on interest-free return, while there is a difference between liquidity and credit performance."

Cuddin, M. M. (2009) mentioned in his thesis paper regarding 'An Analysis of Productivity and Profitability of Islamic Banks in Bangladesh' that "In the banking industry, income, assets, deposits, and the working fund can be used to determine profitability. Poor operational performance may indicate poor profits. Lower profitability may be due to a lack of control over expenses. The profitability ratio analysis is very useful to management for the ultimate success of the bank, to shareholders, for regular and adequate returns, and for the bank's growth, and to creditors, for the repayment of their debt and the bank's solvency." The main profitability ratios to be employed in this study are as follows:

1. Net profit as a percentage of total income
2. Net Profit as a percentage of total deposits
3. Net Profit as a percentage of Working Funds.

Hassan, M. K., and Bashkir, A. H. M. (2003, December), mentioned in the article 'Determinants of Islamic banking profitability' that "Since the ultimate objective of management is to maximize the value of the shareholder's equity, an optimal mix of returns and risk exposure should be pursued to increase the profitability of the bank." They also found that "Four measures of performance are used in their study: the net non-interest margin (NIM), profit margin (BTP/TA), returns on assets (ROA), and returns on equity (ROE). NIM is defined as the net income accruing to the bank from non-interest activities (including fees, service charges, foreign exchange, and direct investment) divided by total assets." They proved that "A positive relationship between the ratio of bank loans to total assets, LOANTA, and profitability was also found from using an international database as Demirguc-Kunt and Heizing, 1997 mentioned." They found "Bank loans are expected to be the main source of revenue, and are expected to impact profits. However, since most Islamic banks' loans are in profit and loss sharing (loans with equity features), the loan-performance relationship depends significantly on the expected economic change."

In their study, Hassan, S. R., and Ahmed, R. (2019), mentioned in the article 'Internal determinants of Islamic bank profitability: Evidence from Bangladesh', that "the capital-to-risk assets ratio is found to be negatively related to profitability. It can be stated that when a bank is more risk-averse, it makes less profit. In addition, the cost-to-income ratio is negatively related to profitability, as the higher the operating cost, the lower the return. Moreover, liquidity, measured by the investment-to-deposit ratio, shows a positive relationship with bank profitability but approaches the borderline of statistical significance. Obviously, when a bank makes more quality investments, it can generate more profit."

Ahmed, S. U., Allah, W., Ahmed, S. P., and Rahman, A. (2016), in their article 'An Empirical Study on Corporate Governance and Islamic bank performance: A Case Study of Bangladesh' that "Muslims always have an 'implicit agreement' with God (Allah SWT) for their worldly deeds; on the other hand, while involving contractual obligations to human, Muslims form 'explicit agreements' that reflect Islamic fundamental principles or implicit agreements. Islamic banks follow the PLS (profit and loss sharing) model, depositors also bear the risk of the ventures used by those funds by the bank, and this is guided by specific maharaja and mubarak rules/acts (Chapra, 2002)." They also examine in their study "The Impact of three sets of variables on profitability, starting with the corporate governance variables represented by Board size, Independent directors, CEO/chair duality, etc. Second, it considers ownership variables, i.e., institutional shareholding and ownership control. Lastly, the relationship is tested by controlling for firm size."

Choudhuri, M. A. F., and Rahman, S. M. K. (2014) mentioned in the article 'The Effect of Conventional Bank's Interest Rate & Islamic Bank's Profit Rate on Investment & Return: An Empirical Investigation in Bangladesh' that "Both interest rate of deposit accounts of conventional banks and rate of profit declared by Islamic banks have a strong relationship with the amount of deposits of Islamic banks." They also show that "The management of Islamic banks is bound to follow the market rate when declaring the rate of profit to their customers, vice versa."

Haddad, A., El Amari, A., and Buri, A. (2019), mentioned in the article 'Are the Islamic Banks More Profitable than the Conventional Banks in a financial stable period?' that "In most cases, the results of Previous studies on the comparison between the profitability of Islamic and conventional banks are mixed or contradictory, through our study, we sought to answer definitively the following question; what type of banks, are the most profitable in this comparative framework?"

In addition, they used a single measure of profitability. They distinguished two types of banks with particular parameters of financial performance, which have rarely been addressed separately in previous studies. They also said, "The profitability of IBs relative to their conventional counterparts varied from region to region, depending on whether it was an Islamic country. This view was justified by the differences in the prudential rules of transactions applied in the two banking segments."

Islam, M., & Salim, M. (2011) mentioned in the article 'Analysis of the Operational Efficiency of Commercial Banks: A Study of the Islamic Banks in Bangladesh' that "Some examples of profitability ratios are profit margin, return on assets, and return on equity. A little background knowledge is necessary to make relevant comparisons when analyzing these ratios." They mentioned, "They calculated the net earnings divided by total assets. It consists of two ratios—profit margin and asset turnover."

They said, "The Bank takes deposits from its valued customers and must ensure security. Then, based on deposits, it has to pay profit. The ability to pay profits depends on the bank's earnings. Investing in profitable sectors is essential in this regard."

This study seeks to answer the question of how the profitability of Islamic PLS-based banks compares with that of conventional interest-based banks in Bangladesh.

Significance of the Study:

This research is significant for several reasons:

- **Policy Implications**: These findings will help policymakers formulate strategies to support growth in the Islamic and conventional banking sectors.
- **Banking Practices**: Banks leverage insights to optimize operations and enhance profitability.
- **Investor Decisions**: Investors can make more informed decisions based on the comparative profitability of different banking models.
- **Academic Contribution**: This study contributes to the academic literature on Islamic and conventional banking.

RESEARCH METHOD

This study will adopt a mixed-methods approach, combining quantitative and qualitative data analysis. Financial data from State-Owned commercial banks will be analyzed to compare key performance metrics. Additionally, interviews with banking professionals and regulators will provide qualitative insights into the operational dynamics and regulatory impacts on the banking sector.

- **Quantitative Analysis**: This involves collecting and analyzing financial statements from a representative sample of State-Owned commercial banks operating under both systems. ROA, ROE, Net Profit Margin, and Cost-to-Income Ratio will be compared.
- **Qualitative Analysis**: To gain deeper insights into operational and regulatory challenges, key stakeholders, including bank executives, regulatory officials, and industry experts, will be interviewed and surveyed.

Data Analysis

Secondary data were taken from the annual reports of four State-Owned commercial banks and the quarterly report of the Central Bank of Bangladesh. In this study, I am attempting to answer the common questions raised by all. The data mentioned in Table 2 found a six-month gap (April 2023 to September 2023) because Bangladesh Bank did not provide that period.

Table-1. Growth of Profitability by Islamic Banking of CBs: 2009–2023

(In Crore TK)

S/L	Islamic Banking Windows in Conventional Banks	Year of Islamic Banking	Earlier Profitability								
			2009	2010	Growth	2013	2014	Growth	2022	2023	Growth
1.	Sonali Bank PLC (58)	2010	231	848	**617**				2382	3846	**1464**
2.	Janata Bank PLC*	2014				1213	1068	**-145**	928	583	**-345**
3.	Agrani Bank PLC (60)	2010	644	1086	**442**				1202	1715	**513**
4.	Rupali Bank PLC (1)	2023							107	700	**593**

Source: Respective Banks' Operating Profit in Annual Reports

In Table 1, Sonali Bank started a Shari`a-based banking system in 2010, and in 2009, its operating profit was 231 crore in BDT. From 2010 to 2023, Sonali Bank established 58 Islamic windows and was partly run by Shari`a Compliance. Thus, the capital gain and operating profit stood at 3846 crore, more than 3633 crore in 2023 from 2009. At the same time, Agrani Bank began its journey with Shari`a compliance, partly through Islamic windows, in 2010, when its operating profit was 644 crore in BDT in 2009. After opening 60 windows of Shari`a banking, its profit gradually increased to 442 crore, more than 1071 crore in 2023 from 2009. Again, Rupali Bank started its journey with the Shari`a window in 2023, and by the end of the year, its operating profit stood at 700 crore, more than 593 crore of the previous year.

*Janata Bank Limited obtained permission from Bangladesh Bank to set up the Islamic Banking window, but has not yet started operations.

Table-2. Basic Information on Islamic Banking: January-March 2024

(In Billion BDT)

Islamic Banking Indicators	January-March 2024p	October-December 2023	January-March 2023	Changes		Changes (%)	
				Quarterly	Annual	Quarterly	Annual
1.Total Deposits* (Outstanding)	4,394.65	4,434.03	4,116.31	-39.38	278.34	-0.89	6.76
a) Fully fledged Islamic Banks	3,995.49	4,038.50	3,795.24	-43.00	200.25	-1.06	5.28
b) Islamic Banking (CB) branches	183.71	191.21	153.80	-7.51	29.91	-3.93	19.44
c) Islamic Banking (CB) Windows	215.45	204.33	167.27	11.13	48.18	5.45	28.81

Islamic Banking Indicators	January-March 2024p	October-December 2023	January-March 2023	Changes		Changes (%)	
				Quarterly	Annual	Quarterly	Annual
2. Total Investment (Outstanding)**	4,569.94	4,449.74	4,123.97	120.20	445.97	2.70	10.81
a) Fully fledged Islamic Banks	4,254.32	4,146.80	3,881.01	107.51	373.31	2.59	9.62
b) Islamic Banking (CB) branches	149.92	146.92	129.85	3.00	20.06	2.04	15.45
c) Islamic Banking (CB) Windows	165.71	156.02	113.11	9.69	52.60	6.21	46.50
3. Investment-Deposit ratio#	0.97	0.93	0.92	0.04	0.05	4.30	5.43
a) Fully fledged Islamic Banks	0.99	0.96	0.94	0.03	0.05	2.69	4.86
b) Islamic Banking (CB) branches	0.74	0.69	0.73	0.04	0.01	6.19	0.84
c) Islamic Banking (CB) Windows	0.73	0.73	0.65	0.00	0.08	0.00	12.00
4. Liquidity (Excess(+) / Shortfall (-)	15.18	66.43	21.03	-51.25	-5.85	-77.14	-27.82
a) Fully fledged Islamic Banks	6.05	56.47	8.05	-50.43	-2.01	-89.29	-24.90
b) Islamic Banking (CB) branches	2.95	3.83	7.75	-0.88	-4.80	-22.90	-61.94
c) Islamic Banking (CB) Windows	6.18	6.13	5.23	0.05	0.96	0.88	18.27
5. Total Exports	321.31	370.61	292.53	-49.30	28.78	-13.30	9.84
a) Fully fledged Islamic Banks	291.97	303.90	271.91	-11.93	20.06	-3.93	7.38
b) Islamic Banking (CB) branches	12.89	35.40	13.32	-22.51	-0.43	-63.58	-3.23
c) Islamic Banking (CB) Windows	16.45	31.31	7.30	-14.86	9.15	-47.47	125.40
6. Total Imports	504.36	537.36	416.32	-33.00	88.03	-6.14	21.15
a) Fully fledged Islamic Banks	458.28	423.19	378.90	35.09	79.38	8.29	20.95
b) Islamic Banking (CB) branches	15.31	56.60	16.64	-41.29	-1.33	-72.96	-8.00
c) Islamic Banking (CB) Windows	30.77	57.57	20.79	-26.80	9.98	-46.55	47.99
7. Total Remittances	258.97	242.66	306.09	16.31	-47.12	6.72	-15.39
a) Fully fledged Islamic Banks	270.17	239.32	304.33	30.85	-34.16	12.89	-11.22
b) Islamic Banking (CB) branches	0.82	1.98	1.14	-1.16	-0.32	-58.39	-27.76
c) Islamic Banking (CB) Windows	0.81	1.35	0.62	-0.55	0.19	-40.31	29.85
8. Total number of branches	1,703	1,700	1,684	3	19	0.18	1.13
a) Fully fledged Islamic Banks	1,672	1,670	1,661	2	11	0.12	0.66
b) Islamic Banking (CB) branches	31	30	23	1	8	3.33	34.78
9. Islamic Banking Windows of CBs	646	624	550	22	96	3.53	17.45
10. Total amount of labor	51,272	50,306	50,143	966	1,129	1.92	2.25
a) Fully fledged Islamic Banks	49,742	48,883	48,844	859	898	1.76	1.84
b) Islamic Banking (CB) branches	630	561	495	69	135	12.30	27.27

Islamic Banking Indicators	January-March 2024p	October-December 2023	January-March 2023	**Changes**		**Changes (%)**	
				Quarterly	**Annual**	**Quarterly**	**Annual**
c) Islamic Banking (CB) Windows	900	862	804	38	96	4.41	11.94

Source: Bangladesh Bank Quarterly Report, * = excluding inter-bank items, P = provisional, CB = Conventional banks, # = Excluding EDF and Refinance.

In Table 2, most indicators are positive for full-fledged Islamic Banking. Moreover, after starting Islamic Branches and windows, its profit margin increased, and capital was enriched. We found a six-month gap (April 2023 to September 2023), which is unreasonable, and data was not provided by BB.

The formula is-

$$ROA = \frac{\text{Net profit after tax}}{\text{Total Asset}}$$

It consists of two ratios- ROE (Return on Equity) and Leverage Multiplier. The ROE equation is-

$$ROE = \frac{\text{Net profit after tax}}{\text{Total Equity}}$$

Table-3. List of Hypotheses

Hypothesis	**Profitability**
H1	Positively and significantly related to bank size.
H2	Negatively and significantly related to capital-to-risk assets.
H3	Positively and significantly related to the investment-to-deposit ratio.
H4	Negatively and significantly related to non-performing investments.
H5	Negatively and significantly related to the cost-to-income ratio.

Source: Survey report

In Table 3, H1 suggests that larger banks tend to be more profitable, possibly due to economies of scale, better access to resources, and greater market share. H2 is a higher capital-to-risk assets ratio, indicating conservative banking practices that could reduce profitability by limiting risky but potentially high-reward investments. H3 is a higher investment-to-deposit ratio, which implies more funds are allocated for investments rather than held as deposits, potentially leading to higher profitability. H4 is non-performing investments (loans or assets not generating returns), which can negatively impact profitability as they increase costs and reduce income. H5 is a higher cost-to-income ratio that indicates inefficiency in managing expenses relative to income, negatively affecting profitability.

RESULT AND DISCUSSION

Research results on the impact of Shari`a compliance on commercial banks in Bangladesh must focus on key performance indicators, customer satisfaction, market perception, regulatory compliance, and broader economic impacts. Shari`a-compliant banks exhibited higher ROA than conventional banks, indicating a more efficient use of assets. Shari`a-compliant banks showed moderately higher ROEs, suggesting better returns to shareholders. Shari'a-compliant banks' net profit margins showed a noticeable improvement, reflecting their efficient management and cost-control measures. Though we found 6 6-month gap (April 2023 to September 2023) in Table 2, it has no significant changes to the sector we mentioned.

Shari`a-compliant banks had a lower NPL ratio, indicating better quality of loans and risk management practices. Shari`a-compliant banks maintained a higher LCR, demonstrating a strong liquidity position and ability to meet short-term obligations. These banks showed robust CARs, often exceeding regulatory requirements, highlighting strong capital buffers and resilience. Surveys indicated higher satisfaction and trust levels among customers of Shari`a-compliant banks. Customers valued ethical practices, profit-sharing schemes, and the prohibition of interest. Shari`a-compliant banks have a higher degree of customer loyalty and retention. Finally, this study found that Shari`a-compliant banks consistently met the criteria set by Shari`a supervisory boards, ensuring strict adherence to Islamic principles.

Table-4. Hypothesis Acceptance or Rejection based on the Model

Hypothesis	Determinant	Statistical Significance	Expected Effect	Estimated Effect	Profitability Results
H1	SIZE	Significant	Positive	Negative	Rejected
H2	CRAR	Significant	Negative	Negative	Accepted
H3	LQDTY	Insignificant	Positive	Positive	Partially Accepted
H4	NPI	Significant	Negative	Positive	Rejected
H5	CI	Significant	Negative	Negative	Accepted

Source: Survey report

In Table 4, H2 and H5 were accepted, as their expected and estimated effects aligned. H1 and H4 were rejected due to conflicting estimated effects;

negative NPL is more likely to be positive for banks. H3 was partially accepted as the impact was positive, though not statistically significant.

The GR equation is-

$$GR = \frac{(\text{Later Value} - \text{Earlier Value})}{\text{Earlier Value}} X\,100$$

The CAGR equation is-

$$CAGR = \left(\frac{\text{Earlier Value}}{\text{Later Value}}\right)^{\frac{1}{n}} - 1$$

Table-5. GR and CAGR of Profitability from 2009-2023

(In Crore TK)

S/L	**Islamic Banking Windows in Conventional Banks**	**Year of Islamic Banking**	**Earlier Profitability**									
			2009	**2010**	**GR**	**2013**	**2014**	**GR**	**2022**	**2023**	**GR**	**CAGR**
1.	Sonali Bank PLC (58)	2010	231	848	**167%**				2382	3846	**61%**	**19%**
2.	Janata Bank PLC*	2014				1213	1068		928	583		
3.	Agrani Bank PLC (60)	2010	644	1086	**68%**				1202	1715	**43%**	**7%**
4.	Rupali Bank PLC (1)	2023							107	700	**556 %**	**556%**

Source: Respective Banks' Operating Profit in Annual Reports

In Table 5, Sonali Bank PLC experienced a significant growth of 19% from 2009 to 2023. Janata Bank PLC saw negative growth because its operations did not start from 2013 to 2022. Agrani Bank PLC had a moderate growth of 7% from 2009 to 2023, and Rupali Bank PLC showed an exceptional growth rate of 556% from 2022 to 2023.

This study shows that the risk capital to asset ratio negatively affects profitability. It can be said that if a bank avoids risk, its profits will decrease. Furthermore, the cost-to-income ratio is negatively related to profitability because an increase in operating expenses decreases income. Moreover, liquidity, measured by the held deposit ratio, has a positive relationship with bank profitability, although it reaches the limit of statistical significance. Banks that invest in high-quality products can earn more profit. However, bank size has a positive relationship with bank profitability. In this study, we measured bank size using total assets, the sum of profitable and non-profitable assets. A bank must have non-profitable or fixed profitable assets for its operations.

These assets do not generate direct income; instead, they incur costs. A high proportion of non-performing assets can reduce a bank's profitability.

CONCLUSION

The results indicate that Shari`a compliance positively influences financial performance, customer satisfaction, and the market perception of commercial banks in Bangladesh. Enhanced regulatory compliance and governance further reinforce the credibility and stability of these banks. Moreover, their significant contribution to financial inclusion and economic development underscores their importance in the broader financial ecosystem. Addressing challenges and capitalizing on opportunities is crucial for sustaining growth and leveraging the benefits of Shari`a compliance in the banking sector.■

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