

Comparative Analysis of Islamic Banking (Shahjalal Islami Bank) and Conventional Banking (Brac Bank) in Bangladesh: Profitability, Stability, and Risk Management

Md. Arif Hossain Sheikh

Department of Islamic Economics and Finance, University of Greater Manchester

Abstract

The comparative analysis of profitability, financial stability, risk management of Shahjalal Islami Bank PLC. (SJIBL) and Brac Bank PLC. (BBL) are crucial part for this research study due to the measurement of current scenarios banking systems in Bangladesh to enhance positive image to the customers. The core objectives of this research are to scrutinize critically to measure profitability by analysis financial performance, financial solvency, and risk mitigating strategy regarding Islamic and Conventional banking system in the market. The mixed method approach has been used for this research by collecting data from secondary sources as well as financial ratios analysis to find out financial performance and position of both banks. The findings of this study are observed that the Conventional banking is superior rather than Islamic banking in case of liquidity, profitability, risk management measure by analysis net profit margin, liquidity coverage ratio, return on assets and equity, as well as capital adequacy ratio in Bangladesh perspective. The regulatory authority of Bangladesh Bank also imposed guidelines for maintaining financial performance of both banks to sustain in the market.

Keywords: Profitability, Stability, Risk Management, Comparison, Conventional Vs. Islamic Bank

1. Introduction

The expansion capacity, modernisation, assets superiority, application of International regulations and Standards, technology improvement, workable banking system, capability building has been changed immensely in the banking industry of Bangladesh (Rashid B.B., 2019). In that sense, Islamic banking has been evolved that prohibits Riba, but Conventional banking is mainly interest-based (Chowdhury M.N., 2015). Furthermore, Islamic banking is different from conventional banking due to some factors like investment rates, loans, non-performing loan rates (Islam D.F., 2019).

However, the industry's operation activity and security issue has become strong due to economic bloom, globalization of the world regarding Islamic and Conventional banking (Rahman M.J., 2018).

According to Mukitul Hoque et al. (2019), Islamic banking is a financial institution follows shariah principles rules, regulations, banning of the receipt and payment of interest on any of its operation. The main aim of this study is to evaluate the Islamic and Conventional banking profitability, financial stability and risk management system of Bangladesh.

1.1 Background of the research and significance of the study

Islamic banking is defined the ethical values based on Shariah principles which involves profit and loss sharing activities ensuring equity and justice for the advancement of country's people. On the other hand, Conventional banking is the debtor-creditor relationship between bank and borrowers, and interest is treated as an opportunity cost in case of Bank (Islam D.F., 2019). According to G.M. Anwar Hossain et.al. (2025), Conventional bank transfer risk from depositors to borrowers or entrepreneurs for the purpose of well-being and profit maximization and Islamic banking operates based on shariah principles prohibits Riba, emphasize ethical, social, and moral framework among depositors or entrepreneurs.

The study is significant because the relative analysis of Islamic and Conventional banking is growing rapidly all over the world specially in Muslim majority countries like Bangladesh. Most of the people of Bangladesh is Islamic minded, so they would like to invest in profit and loss sharing business. For this reason, people can easily avoid interest by the help of Islamic banking models like Mudarabah and Musharakah projects. On the other hand, some of the Conventional banks are opening Islamic banking wings so that they can support according to customers demand and desire. At present, both banks are working to alleviate poverty of Bangladesh as well as contributing to achieve United Nation Sustainable Development Goals.

1.2 Research Aim

The research aims of this study is the comparative analysis of Islamic and Conventional Banking system of Bangladesh.

1.3 Research Objectives

- To critically examine the profitability analysis of Shahjalal Islami Bank PLC. (SJIBL) and Brac Bank PLC. (BBL) of Bangladesh.
- To measure the financial stability of Shahjalal Islami Bank PLC. (SJIBL) and Brac Bank PLC. (BBL) of Bangladesh.
- To critically assess the risk management strategy of Shahjalal Islami Bank PLC. (SJIBL) and Brac Bank PLC. (BBL) of Bangladesh.
- To adopt the policy or guidelines undertaken by both banks to overcome the existing challenges.

1.4 Research Questions

- What are the procedures to analysis the profitability of SJIBL and BBL Banking system?
- How to measure the financial stability of SJIBL and BBL?
- What are the risk management strategies of SJIBL and BBL?
- What are the policies or guidelines recommending by both banks to mitigate the existing challenges?

2. Literature Review

The literature review relates to the several studies, ongoing discussion in the literature, meeting in gaps and spreading prior research, as well as establishing framework for comparing results with other findings (Creswell W.J. and Creswell D.J., 2018).

2.1 Synthesizing the Existing Literature

According to Ramlan and Adnan (2016), the profitability analysis of Islamic banking depends on interest rate cycle that differs from Conventional banking due to its profit and loss sharing scheme as well as compares the Return on Equity (ROE) and Return on Asset (ROA) of both banks to find out the profitability ratio.

Profitability means efficiency of banking operations which measures by using financial efficiency and profitability ratio such as Gross and Net profit margin, Return on Equity and Return on Asset (Sobol I. et al., 2023).

According to Mustafa Haj Youssef (2017), Islamic banking system is based on making profit under the shariah principles, Conventional banking system relies on man-made laws and focus on profit maximization. In comparison, In Islamic banking depositors are not participating in risk management. Conversely, the investor of Conventional banking is the owner of capital and contribute of risk management.

According to Mahmud, A. and Rahman, M.H. (2020), CAMEL approach is the financial tools of measuring financial stability which indicates Islamic bank is financially sound compared to Conventional bank. The Scholar also studies in Bahrain Islamic and Conventional banking, there is no significant difference between them based on financial performance, financial position, efficiency, liquidity, solvency, commitment, and productivity.

According to Rahman, M.A. et al. (2015), profitability is sensitive in credit risk in USA commercial bank. However, interest rate risk is common event in Korean commercial bank rather than foreign exchange rate risk as well as other systematic and non-systematic risk.

Islamic banks are exposed to some diversification of risk due to altered financial structure compared to commercial banks (Rehman, A.A., 2016).

Z-score is one of the measurement tools of financial stability of Islamic and Conventional banking system of Bangladesh to survive in the competitive market (Safiullah, M., 2021).

According to Elbadri, M. and Bektaş, E., 2017, the Islamic finance products assist to maintain greater liquidity position for Islami Bank rather than Conventional bank.

According to Annual Report 2024 of BBL and SJIBL, risk management framework is a crucial tool for reducing risk in an accepted low level, if preventive action is made before occurring risk appetite.

The risk management system is the process of identifying risk, analysing risk, controlling risk and monitoring risk for resolved for stakeholders and financial institutions (Osman, M.J.S., 2025).

Finally, the Scholar Haque M.M. (2019) told that the accomplishment of different banks is examined by financial position and effective management, not only depends on depositors but also rely on shareholders, employees, and entire economy.

2.2 Conceptual Framework

Conceptual Framework of Islamic banking follows ethical shariah principles and conventional banking follows banking internal rules and regulations as well as guidelines of central bank. The differentiate between conceptual framework of Islamic banking and conventional banking are stated below.

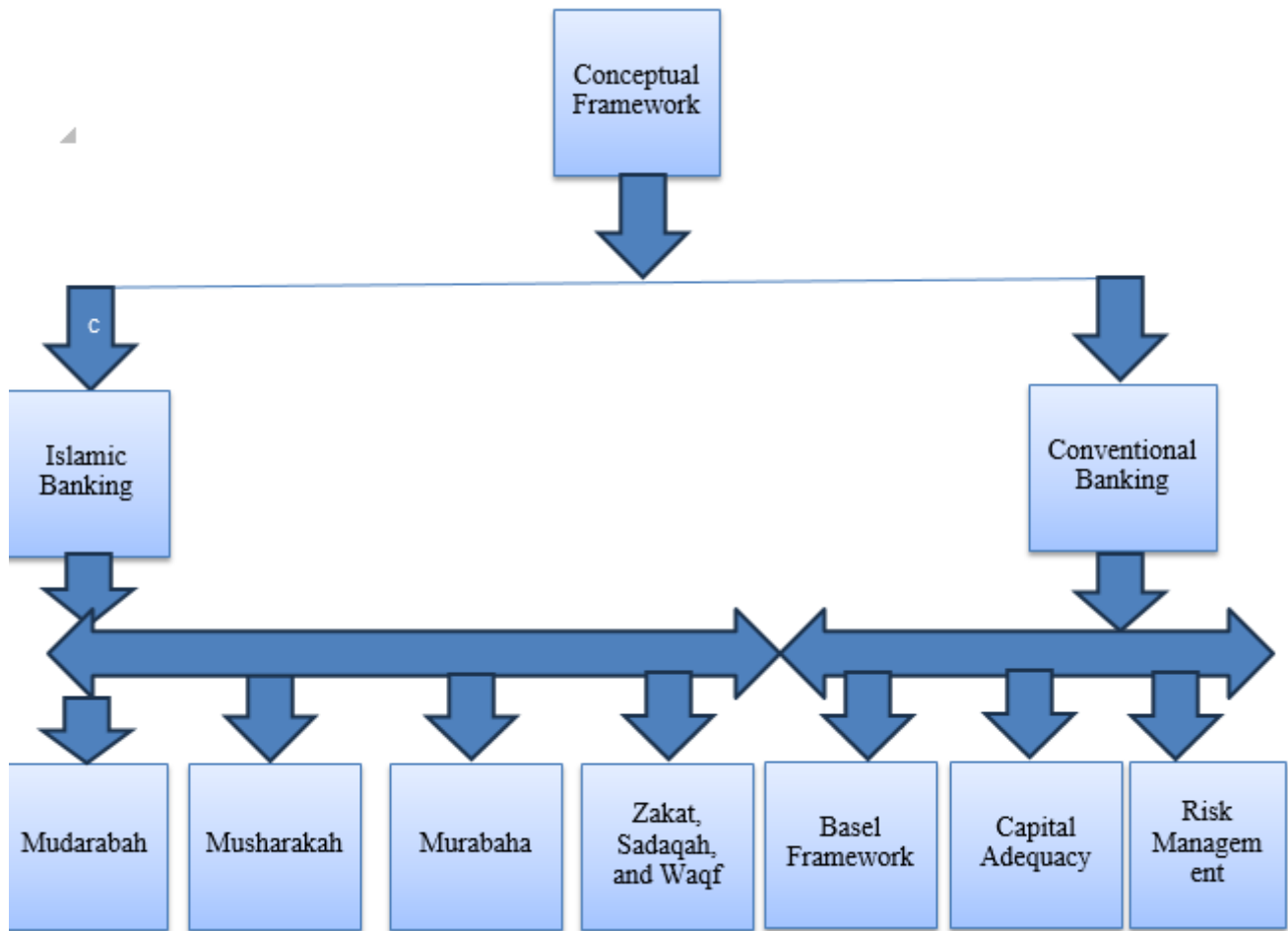


Figure: Conceptual Framework of Islamic and Conventional banking (Source: Developed by researcher of this study)

The conceptual framework helps to mitigate the risk arises during banking operations such as credit risk, liquidity risk, operational risk. Besides, financial stability indicators are also valuable tools to measure risk when arises during banking functions.

2.3 Research Gaps

There are lots of research studies are found in Islamic and Conventional banking in all over the world. Hence, there are reduced number research has been discovered for comparative analysis, profitability analysis, measuring techniques of financial stability, management strategy, as well as how to mitigate the risk banks face during operations. Moreover, there is not any studies found any preventive action taken to tackle the risk of Islamic and Conventional banking so that they can survive in the competitive market. Furthermore, no research is found for non-Muslim countries regarding profitability, financial stability, and risk management strategy in case of Islamic banking. Most of the studies are found in middle East, and North Africa, but not in UK, Canada, Australia, and America. As a result, geographical gap has been found in this study as well as methodological gap due to not collecting primary data due to time constraint. Besides, insufficient conceptual framework gap for Islamic and Conventional banking regarding the banking operations occurred. Uniform framework is required for successful banking operation to survive in the competitive market.

3. Research Methodology

To evolve a standard methodology for research studies, scholars prefer to start with the objectives and research questions, along with the philosophy, research approach, and research design. Moreover, to develop a research methodology, the research onion helps to guide every step of the research process (Saunders et al., 2023). Moreover, research design follows a process that includes different research strategies, a timeline, different ways of data collection, data analysis, and different methodological choices.

3.1 Research Philosophy and Approaches

When a system is developed on different segments, such as beliefs, assumptions, and specific knowledge on specific fields, including specific fields of topics, it can be called a research philosophy (Saunders et al., 2023). Moreover, scholars prefer to have their beliefs based on assumptions that include epistemology, ontology, and axiology instead of research philosophy. There are five segments in the research onion: positivism, pragmatism, interpretivism, critical realism, and post-modernism, and these are called research philosophies (Saunders et al., 2023).

The research approach is the second segment of the research onion. There are three aspects in the research approach, and these are theory building, theory testing, and theory modification. Researchers prefer to use these aspects in the research approach and help researchers to find the expected findings and conclusions (Mahesh B. Tengli, 2020). Through these aspects, researchers get the practical roadmap for the research study along with the philosophical basis for the study. In this specific research paper, the researcher uses interpretivism as the research philosophy, and the researcher also uses mixed method approach for this research paper.

3.2 Research Design

There are three types of research design for the research study, and these are qualitative research design, quantitative research design, and mixed-method research design (Saunders et al., 2023). In this study, researchers have used a Mixed-method research design for the research paper.

3.2 The Choice of Research Methodology

Methodological choice is the third stage of research onion. The researcher used a mixed-method research design for the research study and used the secondary method for data collection. The researcher also used several charts and graphs by financial ratio analysis from different secondary data collection methods, such as reports.

3.4 Research Strategy

To develop a research paper, researchers must use different strategies for the sole purpose of the study. The research strategy is the fourth stage of the research onion, and these strategies help the researcher to carry out the research work (Saunders et al., 2023). In different research studies, several strategies have been used, which include surveys, case studies, experimental design, ethnography, and grounded theory. Several articles and case studies from different countries like Bangladesh, Pakistan, and Nigeria, have been used in this research strategy to develop the thematic analysis for the research study and progress the framework for the research paper.

3.3 Time Horizon and Research Constraints

There are two types of time horizon: cross-sectional and longitudinal, and time horizon is the fifth stage of the research onion (Saunders et al., 2023). When researchers have to use one point in time to develop a theory in the research study, it can be called a Cross-sectional time horizon. Moreover, when researchers

have used progressive changes in the research study, they prefer to use a longitudinal. Additionally, it also helps to mitigate the practical constraints in the process of collecting data.

3.4 Ethical Considerations

The study used mixed method approaches for analysing and collecting data from different sources such as Google Scholars and Scopus articles, journals, books, institutional report, University thesis which may not hamper the third parties' interest due to lack of primary data. Integrity, objectivity, and professional scepticism are required to maintain data integrity so that ethics are established throughout the whole research to analysis financial performance, financial position, and risk management techniques in case of Islamic and Conventional banking.

3.7 Data Collection and Analysis Method

3.7.1 Data Collection

Secondary data has been used for this research from Scholarly articles, journals, thesis paper, annual report of BBL and SJIBL, Bangladesh Bank policy and guidelines report. As mixed approach has been used for data analysis, qualitative interpretivism for secondary data, and quantitative analysis by using financial ratios from annual report to find out present scenarios of Islamic and Conventional banking profitability, financial solvency and risk management framework to attain sustainability.

3.7.2 Thematic Analysis

Thematic analysis is the process of identifying, synthesizing themes, patterns, research findings, budding trends for mixed method approach to collect data from various sources (Harun, H.F. and Rahmat, N., 2025). The thematic analysis steps by Barun and Clarke, 2006 for mixed method approach are identified sequentially to analyse data.



Figure: Thematic analysis of Barun and Clarke

3.7.3 Reliability and Validity Measures

To maintain reliability and validity is an important tool for any research. If the data is not reliable for users to future usage, it will be absurd articles or journals. So, the success of any research depends on validity of data sources from which it has been collected gathered such as Google Scholar, Scopus, institutional report, University library that are reliable sources for research. The credibility of any research relies on users' trustworthiness, factuality, and maintain integrity in all sphere of data usage.

4. Analysis and Discussion

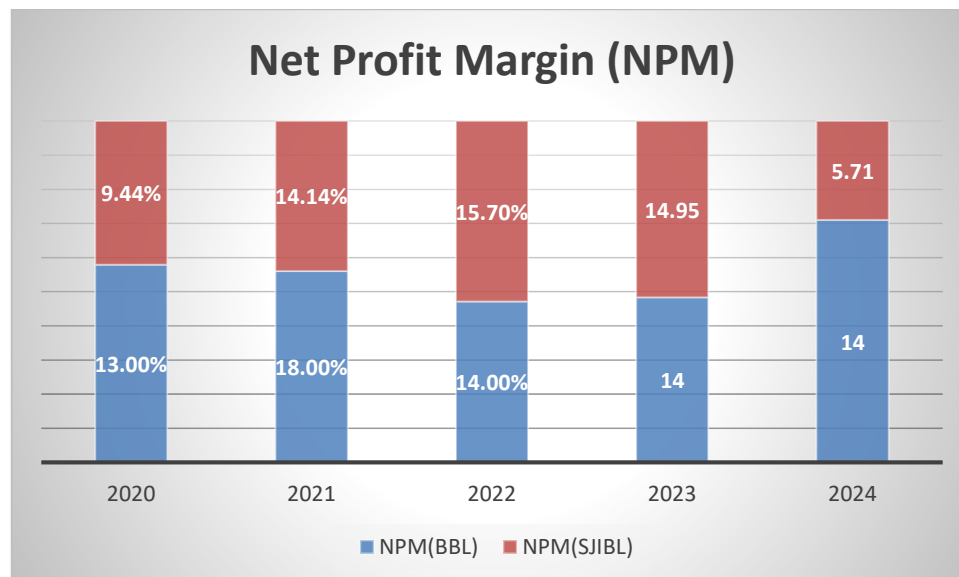
4.1 Comparative Profitability Analysis of Shahjalal Islami Bank (SJIBL) and Brac Bank (BBL)

Every listed bank must submit financial statements quarterly to their website as well as central bank of Bangladesh to measure financial performance so that shareholders equity is reflected properly. Profitability depends on considering some factors such as analysing financial ratios. According to Annual Report 2024 of SJIBL and BBL the table presentation are as follows.

Name of Bank	Gross Profit	Net Profit	Return on Asset	Return on Equity	Earnings Per Share
Shahjalal Islami Bank PLC.	59.88	5.71	0.46	7.15	1.52
Brac Bank PLC.	51.00	14.00	1.46	17.43	6.86

The table indicates that the performance of profitability and proper utilisation of Assets to earn profit Brac Bank (BBL) is in the peak position in compared to the Shahjalal Islami Bank (SJIBL) in Bangladesh.

The graphical presentation to analyse profitability from annual report of SJIBL and BBL from 2020 to 2024 data of is described below.



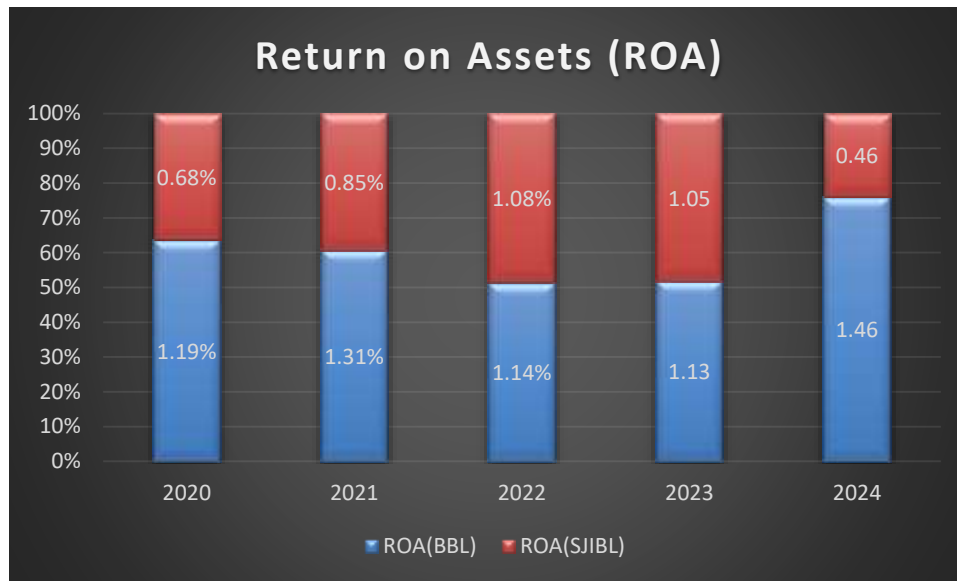
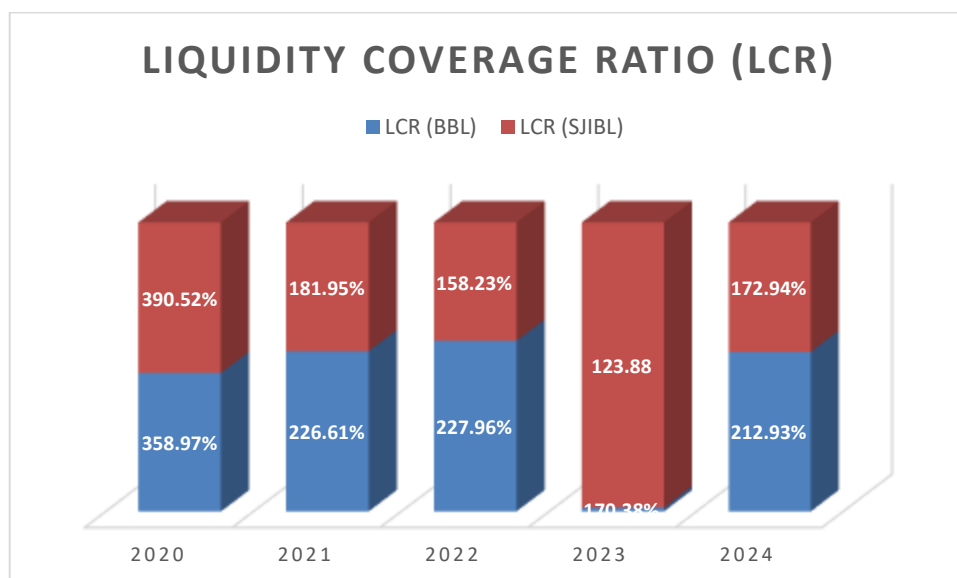


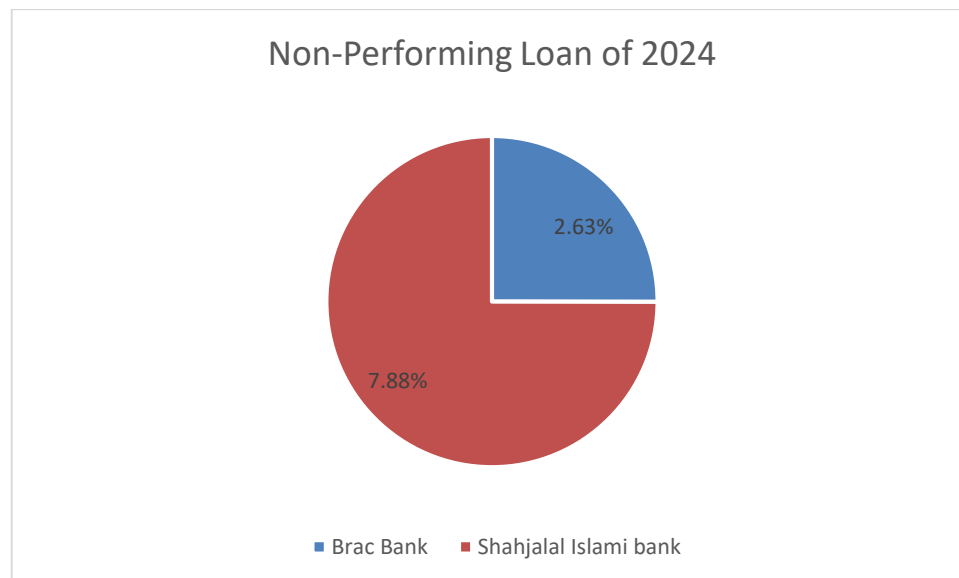
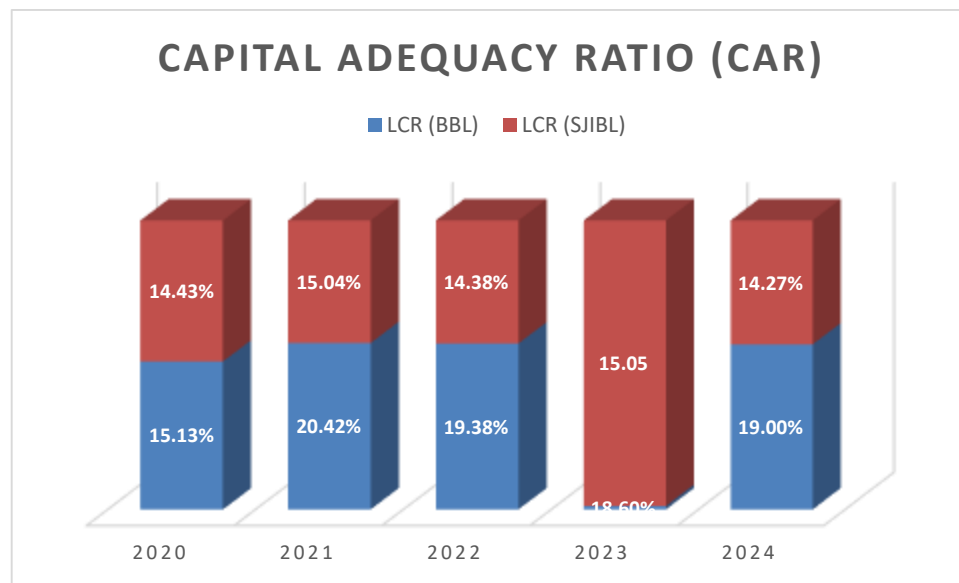
Figure: NPM and ROA of BBL and SJIBL (Source: Annual report 2020-2024)

In case of profitability analysis, graph shows that BBL profit was 13% compared to SJIBL profit 9.44%. However, profit was moderate level in the year 2021-2023 in both banks. Hence, the profit of SJIBL dramatically decreased to 5.71% compared to BBL profit 14% as well as other years.

4.2 Measuring Financial Stability of SJIBL and BBL

According to annual report of 2020-2024 of BBL and SJIBL, to measure financial stability of BBL and SJIBL, it depends on some financial ratios which assists to find out financial position of banks such as Liquidity Coverage Ratio (LCR), Return on Equity (ROE), Capital Adequacy Ratio (CAR), Non-performing Loan (NPL). The graphical presentation of this ration is narrated below.





The graph illustrated that the financial position of Brac Bank is superior compared to Shahjalal Islami Bank. So, the researcher of this study comments that the financial performance and financial stability of conventional bank is satisfactory in compared to Islami Bank in Bangladesh. The financial ratio of return on equity also measures the wealth of shareholders investment in the business as well as non-performing loan reduces the liquidity position of banks. In 2024 annual report, it is seen that Shahjalal non-performing loan in 7.88% in compared to Brac bank 2.63%. As a result, Shahjalal Islami Bank may have fall in problem to run daily operations in the future due to lack of liquidity position.

4.3 Risk Management Techniques or Strategies of SJIBL and BBL

According to annual report 2024, the risk management strategy of Brac Bank is not just a process it's a culture of whole organization to maintain resilience in the banking industry. Brack bank also formed risk management committee so that they can advice to mitigate risk from internal and external risk associated with banking operations. For example, the risks which are engaged in banking operations such as market risk, e-learning module, cyber-security risk, credit risk, liquidity risk, as well as non-financial risk. To

avoid this risk management framework and methodology has been implemented by the risk committee of Brac bank. On the other hand, Shahjalal Islami Bank also adopted some strategy to mitigate the risk of financial as well as non-financial risk. SJIBL also set up committees for risk mitigation that is reliable for planning, guidelines and overall risk management of the bank. As per annual report 2024 risk management framework of Shahjalal Islamic Bank are demonstrated below.

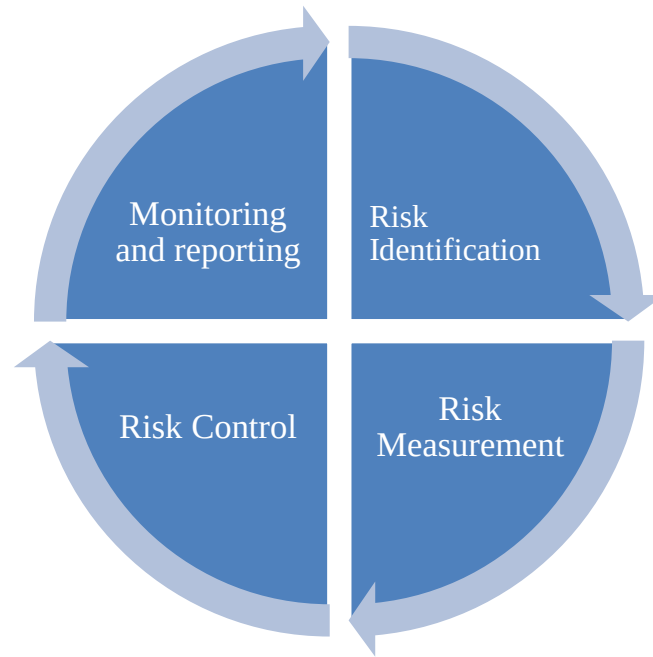


Figure: Risk Management Framework (Source: Annual report 2024 of SJIBL)

According to International BDO risk management methodology and framework are illustrated below.



Figure: International BDO Risk Management Methodology - Risk Management Framework

This risk management framework assists the risk committee to identify risk as well as mitigating such risk from catastrophic situation.

4.4 Regulatory Guidelines and Policy Implications

Bangladesh Bank adopted guidelines for Islamic bank to establish knowledgeable Shariah Supervisory Committee to monitor financial products and Shariah compliant. Any irregularities or lapses of the banking activities occurred through the activities of board members. The shareholders of conventional bank or other financial institutions are bound to maintain code of conduct of Bangladesh bank with honesty and integrity.

5. Conclusion and Recommendations

5.1 Recommendations

The researcher of this study recommends that Conventional banking is more profitable than Islamic bank in the context of Bangladesh. The Islamic and Conventional Bank of Bangladesh should follow uniform guidelines and framework that is globally recognized. Both banking system should develop Rural Development Scheme (RDS) for contributing sustainable development goals as well as eradicating poverty of rural communities. The conventional bank is financially strong due to highest market share as well as conventional bank should establish Islamic banking branch and wing so that monopoly business can be spread up. On the other hand, Islamic banking should increase market share by increasing shariah based interest free products. Islamic bank should create positive image not only for Muslim communities but also for non-Muslim communities so that they can take Islamic banking facilities. Moreover, Islamic banking should develop I-banking system and recruit skilled professional who have knowledge o Islamic Economics and Finance. Both Islamic and Conventional banking should be given attention regarding productivity measurement so that they can achieve profit maximization as well as shareholders wealth.

5.2 Conclusion

According to result of this research regarding the financial performance, stability, and risk management, both banks are efficient and competent to measure performance, financial position, and risk management strategy by identifying risk, control risk and monitoring risk by taking necessary steps. This research covers five years comparative analysis of finding financial performance, financial position, risk management of Shahjalal Islamic Bank and Brac Bank.

According to findings of this study, the researcher understands that in case of profitability, financial stability, risk management capability Conventional bank is the superior position rather than Islamic bank of Bangladesh. The profitability, liquidity, and solvency of Islamic bank is less in compared to Conventional banking due to smaller portion of market share as a newly established bank in Bangladesh. However, to enrich the financial performance of Islamic Bank, they should increase awareness to customers regarding shariah compliance interest free banking to get competitive advantage in the market. Finally, the researcher of this assessment illustrates that financial stability is the key to prosperity of any country as well as reduced financial risk, credit risk, market risk. Hence, the financial performance analysis of Islamic and Conventional banking key indicators is source of interest, other income, and investors money to earn robust profitability in all over the world to make the industry more efficient. This study also requires future researcher due to time constraint, not to collect primary data regarding comparative analysis of Islamic and Conventional banking to enhance profitability, financial improvement and increasing risk management capabilities.

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