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Factors Influencing the Profitability of the Conventional and Islamic Banks in Four Asian Countries

Authors : Vijay Kumar, Ron Bird

Abstract : The study investigates the effect of bank-specific, industry-specific and macroeconomic variables on the profitability of conventional and Islamic banks. Our sample comprises 1,781 bank-year observations of 205 banks from four countries in the Asian region for the period 2004-2014. Our results suggest that credit quality, cost management and bank size are the keys factors that contribute positively to bank profitability in Asia. The banks with high non-performing loans and high cost-to-income ratio are more likely to be exposed to losses. The impacts of the bank-specific variables are stronger than are the industry-specific and macroeconomic variables. We find that Malaysian banks are the least profitable compared to the banks in Bangladesh, Indonesia and Pakistan. There is strong evidence to suggest that conventional banks are more profitable than Islamic banks. Our results suggest that the impact of capital adequacy ratio and bank size and loan to deposit ratio vary across Islamic and conventional banks and across different subsamples.

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