



**United International University**  
*QUEST FOR EXCELLENCE*

**Project Report on:**

**“Evaluation of the Financial Performance of Islamic Banks in  
Bangladesh”**

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## LETTER OF TRANSMITTAL

05.04.2023

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**Subject: Report submission on “Evaluation of the financial performance of Islamic Banks in Bangladesh.”**

Dear Sir,

I want to thank you, my academic advisor, from the bottom of my heart for inspiring me and giving me some crucial advice that enabled me to finish the research on financial performance compliance. A Case Study on “Evaluation of the Financial Performance of Islamic Banks in Bangladesh”. This endeavor would not have been completed without your aid.

I appreciate being able to write this report. The study will look at the impact of Financial Performance on the Islamic banking sector's profitability. The paper has all of the details you asked me to learn about. It has been exciting and educational for me to work on this report, and I think it will be beneficial to my academic and professional careers in the future.

Sincerely Yours,

Dipto Kumar Biswas

ID: 114 173 011

## **Acknowledgment**

First, I would like to thank Almighty Allah and my family who support me to enrich this stage of life. This is an exclusive instance of academic life I passed and enjoyed during the time of my research project, which helped me to prepare for this investigation. I am very fortunate to get sincere guidance and supervision from my academic faculty.

I would like to thank to my honorable faculty Mohammad Amzad Hossain, Assistant Professor, Department of AIS, School of Business and Economics, United International University who is my supervisor. Without his help and suggestions, this study would not have been possible. The support she gave me truly helps the progression and smoothness of the research project program.

## **Declaration Of the Student**

I, Dipto Kumar Biswas hereby declare that the presented report of a research project titled “Evaluation of the financial performance of Islamic Banks in Bangladesh” is uniquely prepared by me after the completion of data analysis from five private Islamic Banks.

I also ensure that the report is only prepared for my academic requirement, not for any other purpose. It might not be utilized in the interest of the corporation.

# Abstract

This paper aims to determine the factors that effect on evaluation of the financial performance of Islamic Banks in Bangladesh. In South Asia, Bangladesh is a well-known hub for Islamic banking. Iran introduced Islamic banking in 1983, and today, Islamic banks account for about one-fifth of the country's banking market share. Very nothing is known about its shari'ah-based governing structure. In Bangladesh, there is no specific law that regulates Islamic banking. Both conventional and Islamic banks are governed by Bangladesh Bank (BB), the country's central bank. Researchers and the international Islamic banking community have taken notice of BB's most recent instructions on the operation of Islamic banking in Bangladesh (BMB Islamic, 2011). This is so that an Islamic bank is not required by these regulations to have a shari'ah supervision committee. As a result, this paper investigates Bangladesh's shari'ah governance framework for Islamic banking, analyzes its problems and difficulties, and offers concrete suggestions for further improvement. This study first offers a definition of shari'ah governance, an introduction to its research methodology, and information on how Islamic banking has evolved in Bangladesh. The shari'ah governing structure is next discussed, along with any related problems or difficulties, and finally, improvements are suggested.

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**CHAPTER ONE:**  
**INTRODUCTION**



# Chapter 1

## 1.1 Introduction

The banking industry is regarded as a developing nation's financial skeleton. As a result, any country's economic growth is guaranteed by its growth. The situation in Bangladesh is like this one. The banking industry is very important for Bangladesh's economic development. The banking sector is supported by a major pillar for conducting business domestically. Islamic banking is regarded as having the fastest global growth rate in the financial business. The Islamic financial sector has been in Bangladesh for over thirty years. There are currently 60 designated banks in Bangladesh. They can be categorized into public limited banks, specialized banks, private commercial banks, and foreign banks, among others. There are another five well-known nonscheduled banks in addition to this. Six public limited banks, five specialized banks, forty private commercial banks, and nine foreign commercial banks make up the sixty scheduled banks.

1. **Islami Shariah-based banks:** There are now 8 such institutions operating in Bangladesh. They adhere to Islamic Shariah standards when conducting their banking operations.

In contrast to conventional banks Islamic banking is a rapidly expanding industry that has gained popularity all around the world. There are more than three hundred Islamic financial institutions worldwide, with investments totaling more than \$400 billion. In Bangladesh, the first Islamic bank, "Islamic Bank Bangladesh Limited," was founded in 1983, ushering in a new paradigm for Islamic banking. Their interest-free banking practices inspire other banks to develop and run their operations under Shariah, as well as the nation's money market. Islamic banking windows have already been opened by numerous conventional banks. Islamic banking refers to financial activities conducted in accordance with Islamic law, which forbids the concept of interest. They conduct their business in accordance with Islamic Shariah law. Interest-based banking refers to conventional banking. Islamic banking refers to financial activities conducted by Islamic law, which forbids the concept of interest. They conduct their business under the Islamic Shariah law. Interest-based banking refers to conventional banking. They lend money to the deficit units and borrow money from the surplus units. They charge the deficit unit interest and give a share of the surplus unit's interest. The balance is regarded as their operating revenue. In addition to this, they

offer further services. They are now referred to as business conglomerates for this reason. They benefit from scale economies, higher incomes, and risk reduction through diversification.

## **1.2 Study Purpose**

The bank supports every nation's economy in today's world. Because banks must expand globally, they're a crucial service sector. Even Global finance and the free market are competitive. Many banks lost money during this time because they lacked proper goals and plans. The bank's adaptability to the outdated banking industry is a major concern. Their slow production line and lack of customer care prevent them from attracting customers. They're uncomfortable using computers and another tech. If a bank wants to improve, it must learn new skills and assess its performance. The bank should always put customer service first, even if they can't perform.

## **1.3 Study goals**

This report is for my BBA and banking experience. Must understand precise goals to succeed. •  
Learn how the bank's many parts work.

- Determine client satisfaction with Islamic Bank's marketing strategy.
- Understand bank business practices.
- To learn how banks work.
- Seek foreign exchange advice.
- Understand the old and new Islamic banking systems.
- Check the bank's finances.
- To understand what makes Islamic banking unique.

## **1.4 Data Sources**

The sources listed below helped me write this study's facts and figures. The source has two sections.

- Primary Resources
- Secondary sources

### **Primary Resources**

Initial data is gathered first. These are some data-gathering methods:

- Meeting with Branch officers and employees.
- Chat with customers.
- Practical experience at multiple Branch desks.

### **Secondaries Sources:**

- Islamic Bank's secondary data sources include annual reports, guides, and brochures. A worker interview and file review are needed to learn more about implementation, supervision, monitoring, and repayment.
- Internet and Islamic Banks' Annual Reports are secondary data sources.

### **1.5 Motivation**

An effective system for evaluating work may encourage collaboration. Creating and operating such a system should be difficult for an organization, assuming that's the goal. As part of the assessment process, members of different groups may rate each other. Independent groups need a favor to pass the execution exam and improve the cycle. A bank's marketing strategy should include scenario analysis, setting goals, selecting target markets, developing a marketing strategy, implementing the plan, and performing a post-audit. Bank profits depend on their marketing plan.

## **1.6 Study's scope and limitations**

### **Objectives**

This study examines Islamic banks' financial management. This study demonstrates a novel method for evaluating an Islamic bank branch's performance. Such research uncovers discoveries and practical advice. Parameters reduce complexity when analyzing performance. Check Islamic Banks' performance to see how well that branch is doing.

The Islami Bank Bangladesh's primary goal has been to provide an interest-free banking system to the financial industry.

In addition, the bank began operating throughout the nation to achieve the following goals:

- To forgo the debtor-creditor structure of conventional banks and instead forges partnerships with consumers.
- The spiritual perspective.
- Accepting deposits on a profit-sharing basis.
- To bolster potential economic sectors with savings to create employment prospects.
- To provide banking services to the society's poor, defenseless, and low-income groups to raise their standard of living.
- To aid in the development of a community through the fair allocation of wealth.
- To establish justice in the nation's trade and commerce.
- To promote morality among the populace and create sharia law in the realm of trade and business;
- To provide services that will aid in the country's economic growth.
- To aid in the development of an Islamic economic system in the nation.
- To build a banking system focused on social benefits.
- To direct savings into profitable industries.
- To invest with a profit-and-risk-sharing structure.
- To make investments in those economic sectors that have been deemed permissible by

### **Research Limitations**

The study's goal was to discover the truth from beginning to end. The study had many flaws. Every study has flaws. The research was lengthy. These factors prevented the bank from operating normally and me from finishing this report:

- Financial and other secrets are kept. They fear rivals will get information. Getting relevant info from them was difficult.
- No bank employees have been interviewed.
- Due to bank requirements, comprehensive research wasn't possible.
- Who could view classified material was limited.
- Despite their best efforts, bankers often believe their work is so they can discuss it.
- Sometimes there aren't enough sources for accurate statistics.
- Bankers and government workers were often too busy to provide information. Due to their busy schedules, they couldn't help.

### **1.7 Evaluation of Islamic Banks**

The way that Islamic banks conduct business is different. Islamic banks run their operations based on profit sharing. Islamic economics guides the pattern of banking activity that is in line with the principles of Shari'ah, the Islamic code of law. Islamic law expressly forbids any form of interest collecting or payment.

The difference between the interest received from their borrowers and the interest is given to their depositors is how traditional banks make money (Mohamad, Hassan & Bader, 2008).

### **1.8 Objective by CAMEL**

To determine whether Islamic banks are running their businesses effectively, this article measures and evaluates their financial performance by CAMEL.

## 1.9 The Methodology using CAMEL

This research paper study is based on financial information about the sample banks that was gathered from their financial statements and websites. All the Islamic banks operate in Bangladesh, where the population is concentrated.

Five of which are Islamic, make up the typical sample size in this case. These are chosen at random. These are the chosen banks:

<b>Islamic Banks</b>	
Exim Bank	1
Islami Bank Bangladesh Limited	2
First Security Islami Bank Limited	3
Al-Arafah Islami Bank Limited	4
Shahjalal Islami Bank Limited	5

All financial information was gathered between 2015 and 2019 from the websites of reputable banks. The average ratios for Islamic banks for each year were taken into consideration to provide a sound result. The mean of each ratio for each banking method was then determined. Capital adequacy, asset quality, management quality, earning potential, and liquidity make up the CAMEL test. The following six ratios are used in this paper to produce a sound result.

<b>Alphabet</b>	<b>Stands for</b>	<b>Measurement Ratio</b>
C	Capital Adequacy	Total Equity / Total Asset
A	Asset Quality	(Pretax income + <b>loan loss provision</b> ) / net charge-offs.
M	Management Efficiency and Quality	Total Operating Expenses / Total Operating Income
E	Level of Earnings	Net Profit / Total Asset Net Profit / Total Equity
L	Liquidity Level	Net Loan / Total Assets

**Chapter 2:**  
**Literature Review**

## Chapter 2

### Literature Review

#### 2.1 Traditional Islamic Bank

Islamic banking is described as financial services provided by Shariah law and its practical application through the development of Islamic economics. Usury, *riba*, and the set or fluctuating payments of certain interest rates or fees are all prohibited under Shariah. It is also prohibited to invest in businesses that are thought to provide goods or services contrary to Islamic principles (literally, "sinful and forbidden"). However, it wasn't until the late 20th century that several Islamic banks were established to apply these principles to private or semi-private commercial institutions within the Muslim community. Historical Islamic economies have applied these principles to varying degrees due to a lack of Islamic practice.

Islamic banking pursues the same objectives as conventional banking, with the exception that it operates under *Fiqh al-Muamalat*, the Shariah's rules. The primary Islamic concepts used in Islamic banking are profit sharing (*Mudarabah*), safeguarding (*Wadiah*), joint ventures (*Musharaka*), cost plus (*Murabaha*), and leasing (*Ijara*). Siddiqui (2004) lists the following as some of the essential elements of Islamic banking: For instance, Kaynak and Whiteley (1999) discovered that the bank's convenience had the biggest impact on customers' preferences for a certain institution. Jalaluddin (1999) questioned 80 Australian financial institutions with offices in Sydney about their opinions on Islamic financing methods based on profit-loss sharing and whether they would be open to making loans using these strategies.

Across the board, more than 40% of respondents were willing to lend money on a profit-loss sharing basis, motivated in part by the desire to assist businesses and a considerable rise in the demand for cash. Owusu-Frimpong (1999), Ta and Har (2000), and Kaynak and Harcar (2005) discovered, however, that profitability elements, such as cheap service costs and high-interest rates, were the main reasons why clients chose a specific bank. The opposite conclusion was reached by Almosawi (2001), who said that the reputation of the bank was the most crucial element. Ahamad and Haron (2002) state that the opinions of 45 corporate clients about Islamic banking goods and services were investigated.



The key finding was that customers valued economic factors like profitability and service quality more than religious factors. Even yet, it may be argued that the majority of respondents were non-Muslims, who often have less knowledge of Islamic banks' presence and the interchangeability of Islamic financing methods for goods and services. While Kaynak and Harcar (2005) also concluded that a swift and efficient service was also an appealing attribute valued by both present and future customers, Gerard and Cunningham (2001) believed that for the majority of consumers, feeling secure was the most important factor in choosing a bank.

## **2.2 Camel Islamic banks**

A financial system that upholds Islamic principles is considered to be Islamic (Sharia). The use of these principles will ensure the growth of an Islamic economy. Receiving any compensation in the form of interest on loans is prohibited, according to Islamic law. Because of this, the Islamic banking system forbids accepting or disbursing interest while conducting business. The conventional financial system, however, does not follow Islamic law. Banks generate income under the traditional banking system by adding interest to loans. Whether someone deposits money in a bank, in which case they are considered depositors, or whether they borrow money from a bank, in which case they are considered borrowers, determines whether they are considered depositors or borrowers.

Interest is levied to the borrower and paid to the depositors at a predetermined rate. Many studies have been done to compare the performances of conventional banks with Islamic banks. Nonetheless, they weren't particularly loud. The reason was that due to their sudden rise, the numbers weren't available. Modern Islamic banks and Traditional private commercial banks will be the main focuses of this study.

## **Chapter-Three**

# **Overview of Five Selected Private Islamic banks**

## Chapter 3

### Overview of Selected Private Islamic banks

- 1) **Islami Bank Ltd**
- 2) **Shahjalal Islami Bank**
- 3) **Al-Arafah Islami Bank**
- 4) **Social Islami Bank Limited**
- 5) **Fast Security Islami Bank Ltd**

#### 3.1 Islami Bank Ltd

Bangladesh is a Muslim nation. This country's residents follow the Islamic way of life as outlined in the Qur'an and Sunnah. Naturally, designing their economic life around Islamic precepts is a deep desire. Islami Bank Bangladesh Limited was founded on March 13, 1983, and operations began on March 30, 1983. Islami Bank Bangladesh Limited is a Joint Venture Public Limited Company with 63.09% foreign investment and the largest branch network (250 Branches & 30 SME/Krishi Branches, for a total of 280 Branches) among Bangladeshi banks. As of June 30, 2013, the bank's authorized capital was \$257.23 million and its paid-up capital was \$188.25 million. First of its kind in Southeast Asia. All banking and investment activities are interest-free profit-loss sharing. In doing so, it brought a new ray of hope for realizing the people of Bangladesh's long-cherished ambition of conducting banking transactions according to Islamic principles.

Islami Bank Bangladesh Limited has become a leading private commercial bank in Bangladesh with the help of the Islamic Development Bank (IDB) and other Islamic banks, financial institutions, government bodies, and eminent personalities from the Middle East and the Gulf.

### **3.2 Shahjalal Islami Bank**

On May 10, 2001, Shahjalal Islami Bank Limited (SJIBL) began commercial operations in compliance with Islamic Shariah principles under the Banking Companies Act of 1991. SJIBL has opened new branches in key locations across the country in the last nine years, offering investment and deposit products. Islamic Banking is not only an INTEREST-FREE banking business; it also carries commercial products, earning actual income and increasing GDP.

### **3.3 Al-Arafah Islami Bank**

Al Arafah Islami Bank Ltd was registered as a private limited company on 18 June 1995 to achieve success here and hereafter by following Allah and the prophet Rasul (SM). 1995 was the opening date. As of 31.12.2007, the bank's authorized capital was Tk.2500.00 million and its paid-up capital was BDT 1153.18 million. Sponsors include renowned Islamic Scholars and pious businessmen. Indigenous shareholders own all paid-up capital.

On 31 December 2007, the bank had BDT 2037.50 million in equity, 1033 employees, and 12013 shareholders. It has consistently made a profit and paid a dividend. The bank achieves success through high-quality customer service, modern technology, and new products. The bank has a diverse array of carefully tailored products and services to satisfy customer needs.

The Bank will boost the economy. 60 branches, 17 of which are AD, contribute to the country's socioeconomic development.

### **3.4 Social Islami Bank Limited**

In the formal corporate sector, this Bank would, among others, offer the most up-to-date banking services through the opening of various types of deposit and investment accounts, financing trade, providing letters of guarantee, opening letters of credit, collection bills affecting the domestic and international transfer, leasing of equipment and consumer durables, hire purchase

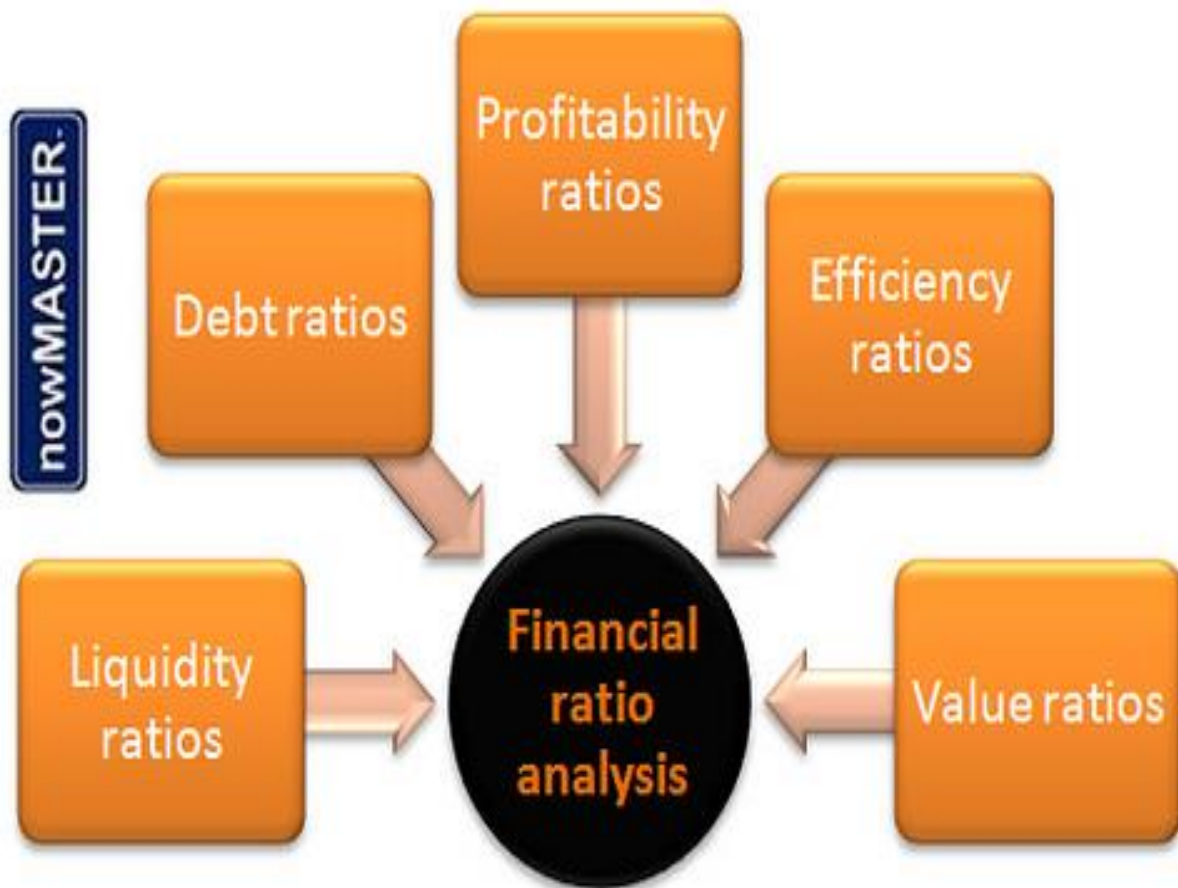
and installment sale for capital goods, investment in low-cost housing and management of real estates, participatory investment in various industrial, agricultural, transport, educational and health projects and so on.

### **3.5 Fast Security Islami Bank Ltd**

First Security Islami Bank Limited (FSIB) was incorporated in Bangladesh on 29 August 1999 to conduct banking business. Bangladesh Bank permitted it to open on September 22, 1999. The bank has 52 branches. The bank's commercial banking activities include accepting deposits, making loans, discounting bills, conducting money transfer and foreign exchange transactions, and providing safekeeping, collections, guarantees, acceptances, and letters of credit.

## **Chapter-Four**

# **Overview of Financial Ratios**



## Chapter 4

### Overview of Financial Ratios

#### 4.1 Financial Ratios

A financial ratio or accounting ratio is a ratio of two financial statement numbers. Standard ratios are used to assess a company's financial health. Managers, shareholders (owners), and creditors use financial ratios. Financial ratios help analysts compare company strengths and weaknesses. When calculating financial ratios, the market price of a company's shares is used.

Balance sheets, income statements, cash flow statements, and statements of retained earnings values are used to calculate financial ratios. These are the company's "accounting statements"

Financial ratios measure a company's performance and finances. Financial statements provide most ratios. Financial ratios can be used to analyze trends and compare firms' financials. Ratio analysis can predict bankruptcy.

Five groups classify financial ratios.

- ❖ Liquidity ratio
- ❖ Activity ratio
- ❖ Leverage ratio
- ❖ Profitability ratio
- ❖ Market value ratio

#### **a) Liquidity Ratio**

Liquidity ratios show a company's ability to meet short-term obligations. Short-term lenders are interested in them. The current ratio and quick ratio are two liquidity ratios.

The current ratio is current assets/current liabilities.

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current Liabilities}}$$

#### **Cash Accounts Receivable,**

- ❖ Invoices
- ❖ Inventory
- ❖ Receivables
- ❖ Investments

#### **Current Liabilities,**

- ❖ Debt



❖ A/P

❖ Arrears

❖ Taxes Due

### **b) Leverage Ratios**

Leverage ratios indicate long-term firm solvency. Instead of short-term assets and liabilities, financial leverage ratios measure long-term debt.

Total debt/total assets equal the debt ratio.

$$\text{Debt to Total Ratio} = \frac{\text{Total Liabilities}}{\text{Total assets}}$$

The debt-to-equity ratio is total debt divided by total equity:

$$\text{Debt to Equity Ratio} = \frac{\text{Total debt}}{\text{Total Equity}}$$

Long-term leases and long-term debt or equity classifications affect debt ratios.

### **c) Profitability Ratios**

Profit margin is net income/net sales. It measures operating performance by showing revenue profitability. It reveals pricing, cost structure, and production efficiency.

$$\text{Profit margin} = \frac{\text{net income}}{\text{net sales}}$$

Return on assets measures how well a company's assets generate profits. Definition:

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Return on equity measures profits per dollar invested in a company's stock. Return on equity:

$$\text{Return on Equity} = \frac{\text{Net income}}{\text{Stockholder's Equity}}$$

#### **d) Market value Ratio**

Earnings per share indicate the number of earnings for each common share held.

$$\text{Earnings per share} = \frac{\text{net income-preferred dividends}}{\text{number of common stock outstanding}}$$

The price/earnings ratio evaluates the enterprise's relationship with its shareholders.

$$\text{Price/earnings ratio} = \frac{\text{market price per share}}{\text{earnings per share}}$$

The dividend yield is calculated as,

$$\text{Dividend yield} = \frac{\text{dividends per share}}{\text{market price per share}}$$

The dividend payout is calculated as,

$$\text{Dividend payout} = \frac{\text{dividends per share}}{\text{earnings per share}}$$

## 4.2 CAMEL

- A. **Capital Adequacy:** This factor plays a significant role in determining how well a bank is performing. It aids the bank's analysis of its loss-absorbing capability during a time of risk. By dividing equity by total assets, capital adequacy will be determined in this study. Understanding the banks' financial stability is beneficial to the bank. Also, it will help the bank specify the number of assets financed by its owners. This is because a stronger capital adequacy ratio will give the bank a solid safety net for its loan activities and lower unforeseen risks. A higher capital adequacy ratio, following Samad (2004), supports the institution in the event of financial losses. It implies that the danger of bankruptcy rises as less equity is available to back the bank's assets. Hassan and Bashir also carried out comparable studies (2003). They claim that a lower capital adequacy ratio regularly sends a message that banks are courting risk. Banks should keep this ratio as high as feasible for this reason.
- B. **Asset quality:** With this, the bank will be aware of the risks related to the exposure of the debtor. In this study, the loan loss reserve (LLR) ratio will be used to assess asset quality. LLR is a metric used to assess the total amount of loans made by a bank. Understanding the amount of money banks have set aside in case of non-performing loans aids the bank (NPL). LLR guarantees to cover NPL and questionable loans for the bank. The overall provision set up for NPL is depicted by this ratio. Thus, banks should concentrate on maintaining minimal NPL provisions. Banks with greater NPL levels ought to be more worried about potential losses. So, banks should maintain this ratio as low as possible.
- C. **Management quality:** It provides information regarding the management's aptitude. The management's job is to preserve and ensure that the operation runs smoothly. The management's capacity to control costs and boost productivity will determine how well the bank performs, which will raise profitability. Cost to income ratio is a metric used to assess management quality. This ratio identifies the expenses a company incurs to make a profit. Banks must keep their overhead costs under control to ensure a smooth operation. Thus, banks should maintain a low-cost income ratio.
- D. **Earning:** This is a further characteristic that highlights the bank's ongoing earnings-related activity. Adjusting the amount of revenue and the cash available for its

shareholders, it strengthens the bank's ability to sustain losses. The profitability of the banks is defined in this paper using two performance metrics: return on assets (ROA) and return on equity (ROE). According to Petersen and Schoeman (2008), return on asset measures the returns of equity holders to assess the growth of their investments. Return on equity measures the operational effectiveness of a company. By Petersen & Schoeman's (2008) assertion, banks should keep adequate capital on hand to weather a crisis. Also, banks must make sure they do not have any excess capital because having more equity capital will lower ROE.

- E. **Liquidity:** This aids banks in determining and assessing risk in the event of an unforeseen event that might arise during the bank's insolvency. This article will examine the ratio of net loans to total assets to assess liquidity (NLTA). It is the overall quantity of assets utilized to secure loans. According to the findings of Hassan and Bashir's 2003 study, banks should keep NLTA levels as low as feasible. Higher NLTA has a negative influence on banks' liquidity criteria since it indicates that they have engaged in high lending, which could put them in danger of facing a high level of moral hazard. Hence, the bank benefits from a lower NTLA ratio.

## **Chapter-Five**

### **Finding And Analysis**

## Chapter 5

### Finding And Analysis

#### 5.1 Traditional Evaluation and Ratio

- 1) Current Ratio
- 2) ROI
- 3) ROE
- 4) Cash Ratio
- 5) CIR
- 6) Debt-to-Asset
- 7) Debt/Equity
- 8) EPS
- 9) Price Earnings Ratio
- 10) Gross profit margin
- 11) OPM
- 12) NPV

#### 5.2 CAMEL Evaluation and Ratio

## 5.1 Traditional Evaluation and Ratio

### 5.1.1 Current Ratio

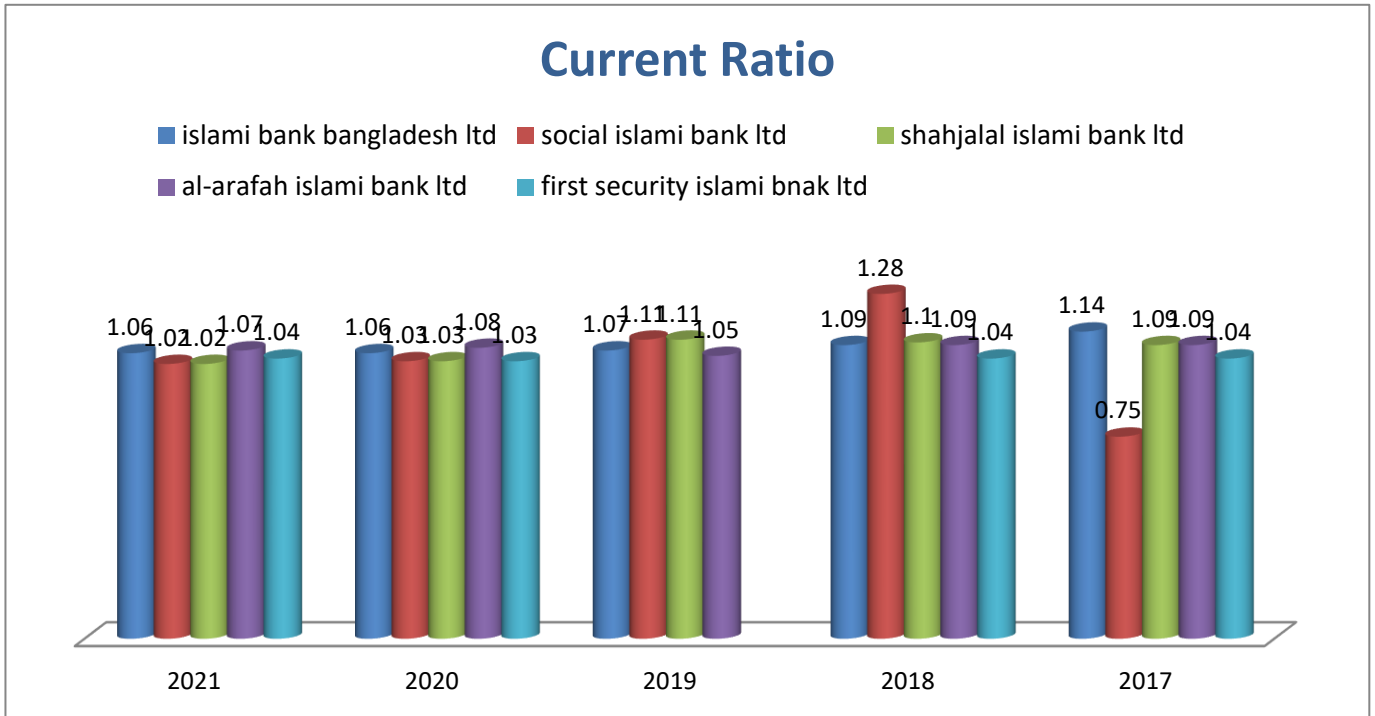
This ratio shows a company's ability to pay off short-term debt with short-term assets. A higher current ratio means a company can pay its debts.

The Current Ratio Formula is:

$$\text{Current ratio} = \frac{\text{current asset}}{\text{current liabilities}}$$

Particulars	2021	2020	2019	2018	2017
Islami Bank Bangladesh Ltd	1.06	1.06	1.07	1.09	1.14
Social Islami Bank Ltd	1.02	1.03	1.11	1.28	.75
Shahjalal Islami Bank Ltd	1.07	1.08	1.05	1.10	1.09
Al-Arafah Islami Bank Ltd	1.04	1.03	1.04	1.09	1.09
First Security Islami Bank Ltd	1.02	1.03	1.11	1.04	1.04

Figure: Current Ratio



Social Islami Bank Ltd.'s current ratio is excellent, according to the analysis. In 2017, their current ratio was 1.28, the best in five years. 2021's current ratio was low and good. IBBL, SJIBL, AIBL, and FSIBL did well. Social Islami Bank Ltd. is better than these two banks.

### 5.1.2 ROI

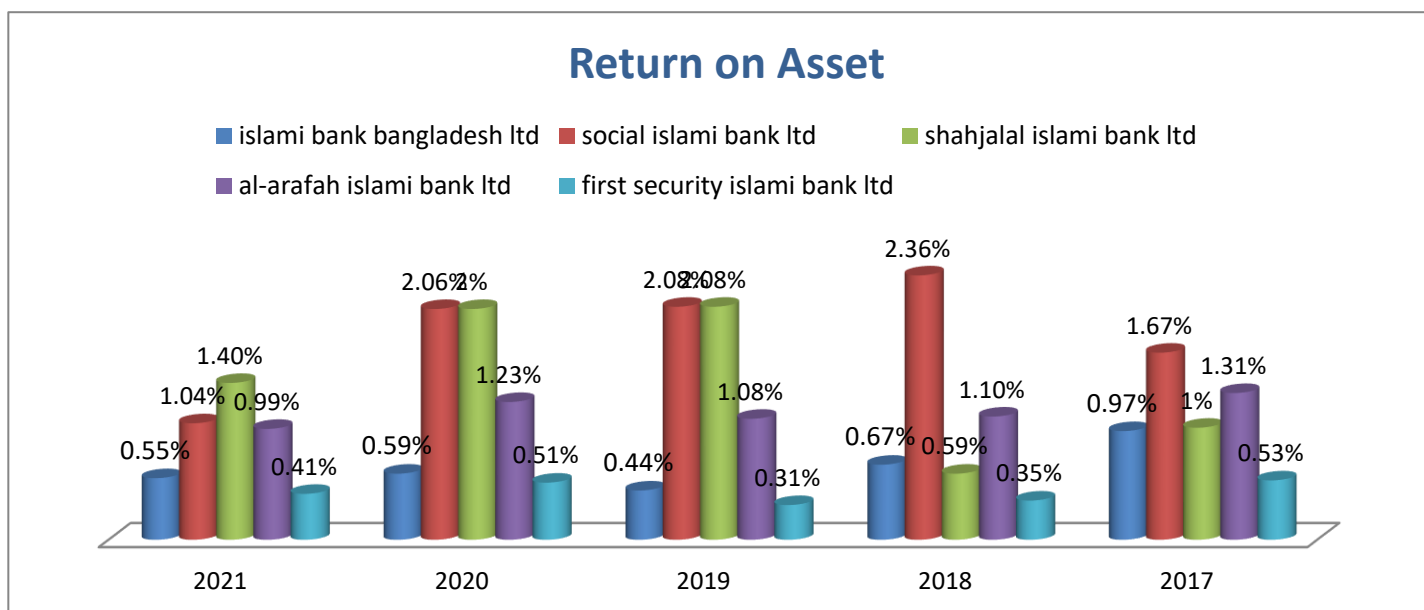
A ratio that measures EBIT against net assets. The ratio shows how well a company uses its assets to generate profits before contractual obligations.

$$\text{Return on Asset} = \frac{\text{EBIT}}{\text{Total net assets}}$$



Particulars	2021	2020	2019	2018	2017
Islami Bank Bangladesh Ltd	.55%	.5	.44%	0.67%	0.97%
Social Islami Bank Ltd	1.04%	2.06%	2.08%	2.36%	1.67%
Shahjalal Islami Bank Ltd	1.40%	2.06%	2.08%	.59%	1%
Al-Arafah Islami Bank Ltd	.99%	1.23%	1.08%	1.10%	1.31%
First Security Islami Bank Ltd	.41%	.51%	.31%	0.35%	0.53%

Figure: Return on Asset



In this graph, Social Islami Bank Ltd has the highest ratio of return on assets in 2021,2020,2019,2018, and 2017 (1.04%,2.06%,2.08%,2.36%,&1.67%). This bank's means of earning before contractual payment.

### 5.1.3 ROE

Percentage of net income returned to shareholders. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

$$\text{Return on Equity} = \frac{\text{net income}}{\text{shareholders equity}}$$

Calculate ROE as a percentage by:

<b>Particulars</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Islami Bank Bangladesh Ltd	10%	9%	7%	9%	11%
Social Islami Bank Ltd	10%	16%	16%	14%	11%
Shahjalal Islami Bank Ltd	10%	16%	16%	7%	13%
Al-Arafah Islami Bank Ltd	14%	15%	12%	13%	14%
First Security Islami Bank Ltd	11%	13%	9%	8%	12%

## Return on Equity

■ islami bank bangladesh ltd   ■ social islami bank ltd   ■ shahjalal islami bank ltd  
 ■ al-arafah islami bank ltd   ■ first security islami bank ltd

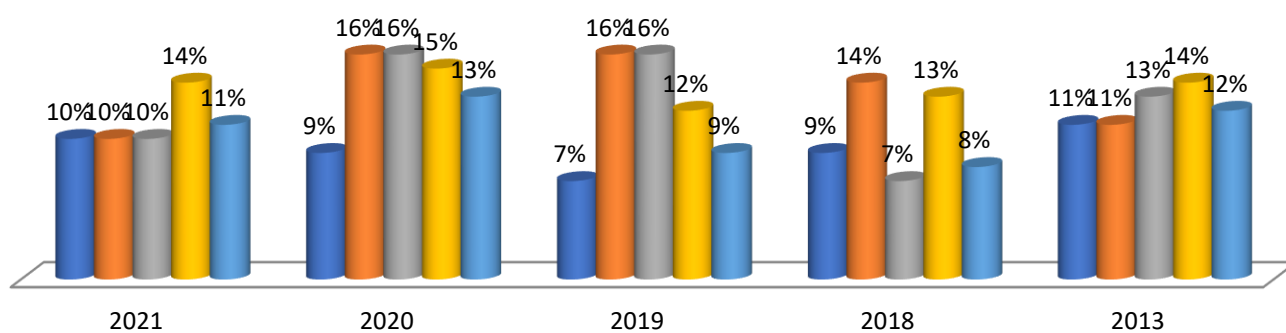


Figure: Return on Total Equity

Shahjalal Islami Bank Ltd is more likely to generate income as a percentage of shareholder equity in 2021,2020,2019,2018, and 2017 than IBBL, SIBL, AIBL, and FSIBL. Shahjalal Islami Bank Ltd. is better than other banks.

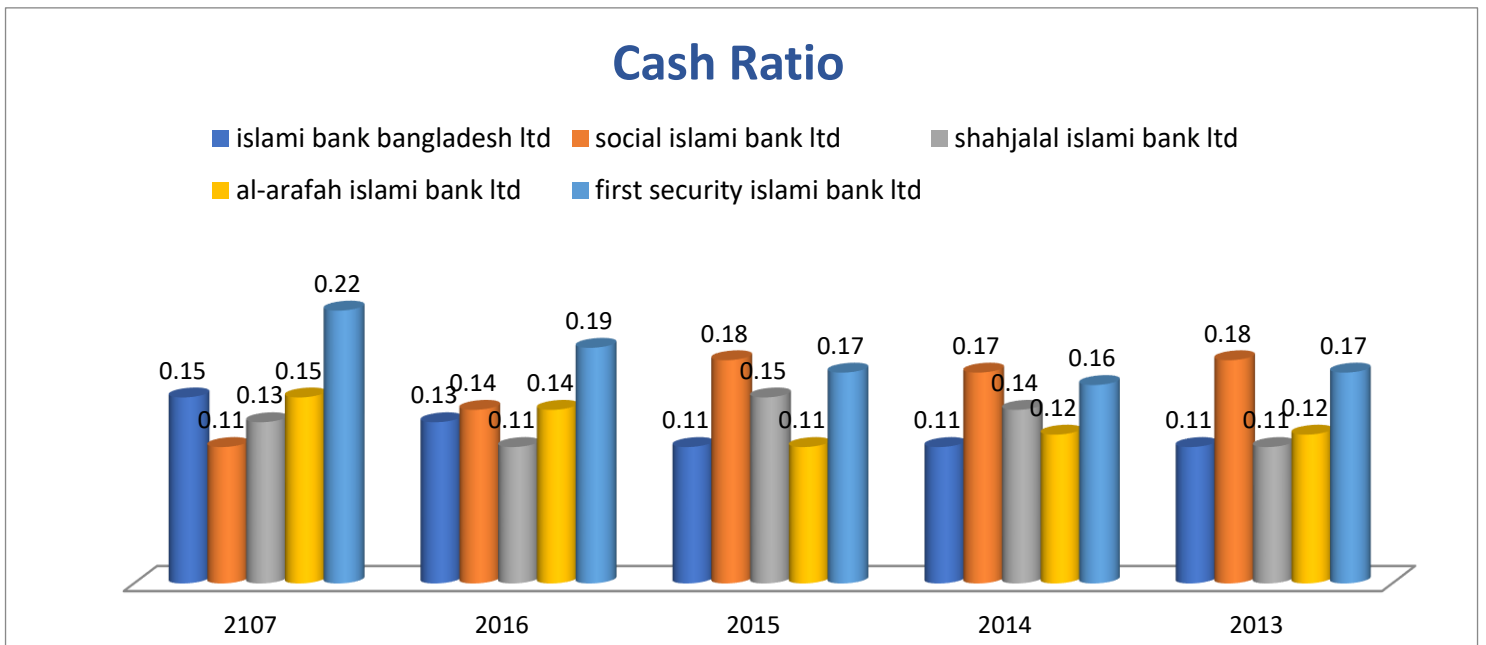
### 5.1.4 Cash Ratio

Cash is used to measure company liquidity. It determines when the company can repay short-term debt. A strong cash ratio helps creditors decide how much debt to give an applicant.

$$\text{Cash Ratio} = \frac{\text{cash} + \text{cash equivalents}}{\text{total current liabilities}}$$

Islami Bank Bangladesh Ltd	0.15	0.13	0.11	0.11	0.11
Social Islami Bank Ltd	0.11	0.14	0.18	0.17	0.18
Shahjalal Islami Bank Ltd	0.13	0.11	0.15	0.14	0.11
Al-Arafah Islami Bank Ltd	0.15	0.14	0.11	0.12	0.12
First Security Islami Bank Ltd	0.22	0.19	0.17	.16	0.17

Figure: Cash Ratio



The graph shows that FSIBL pays current liabilities faster in cash. 2018 and 2017 AIBL were good. AIBL, SJIBL, SIBL, and FSIBL are weaker than IBBL.

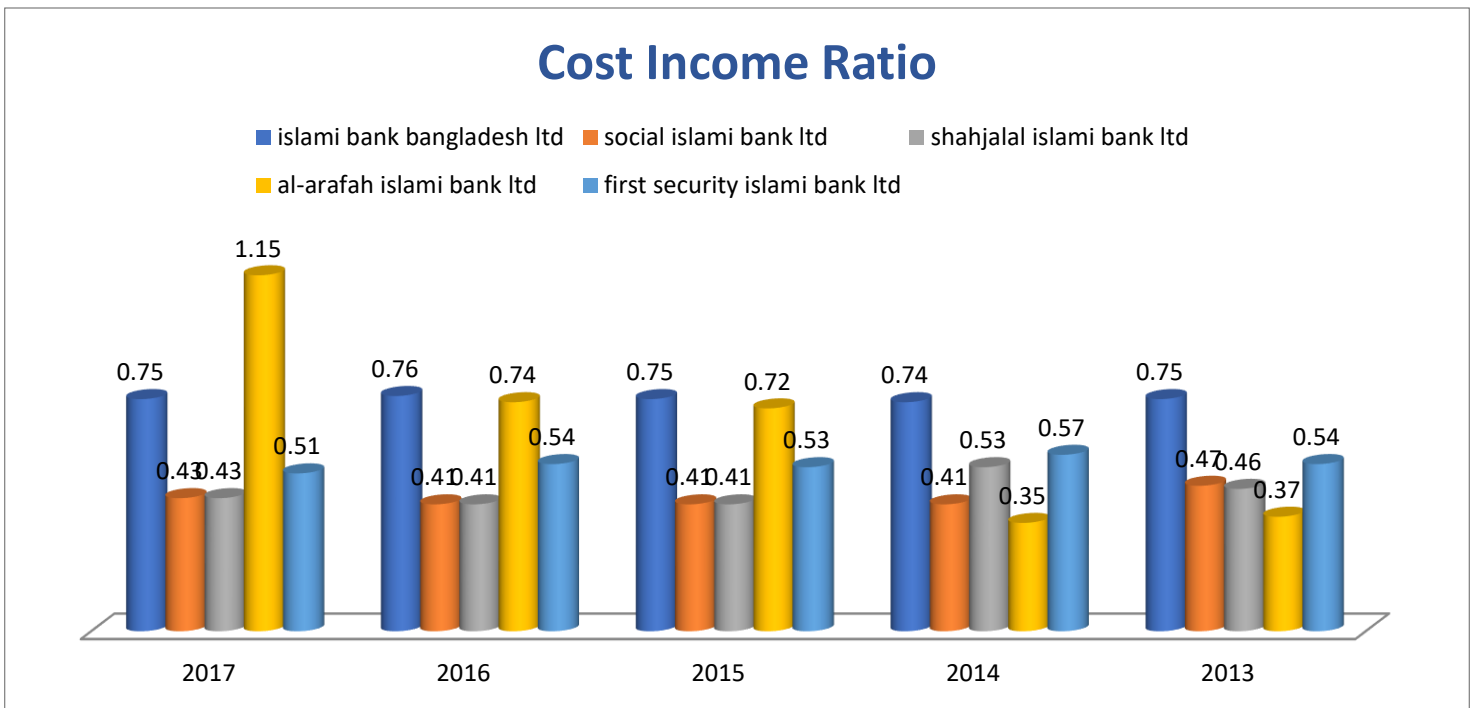
#### 5.1.5 CIR

The cost-to-income ratio is calculable-

$$\text{Formula: Cost Income Ratio} = \frac{\text{Total operating expense}}{\text{Total operating income}}$$

<b>Particulars</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Islami Bank Bangladesh Ltd	0.75	0.76	0.75	0.74	0.75
Social Islami Bank Ltd	0.43	0.41	0.41	0.41	0.47
Shahjalal Islami Bank Ltd	0.43	0.41	0.41	0.53	0.46
Al-Arafah Islami Bank Ltd	1.15	0.74	0.72	0.35	0.37
First Security Islami Bank Ltd	0.51	0.54	0.53	0.57	0.54

Figure: Cost-Income Ratio



The graph above shows IBBL's cost-income position. 2018 and 2017 FSIBL were 0.54 and 0.57. AIBL, SJIBL, SIBL, and FSIBL are weaker than IBBL.

### 5.1.6 Debt-to-Asset

Total debt to assets is a leverage ratio that compares debt to assets. This allows company-to-company leverage comparisons. Higher ratios increase leverage and financial risk. This ratio includes long-term, short-term, tangible, and intangible assets.

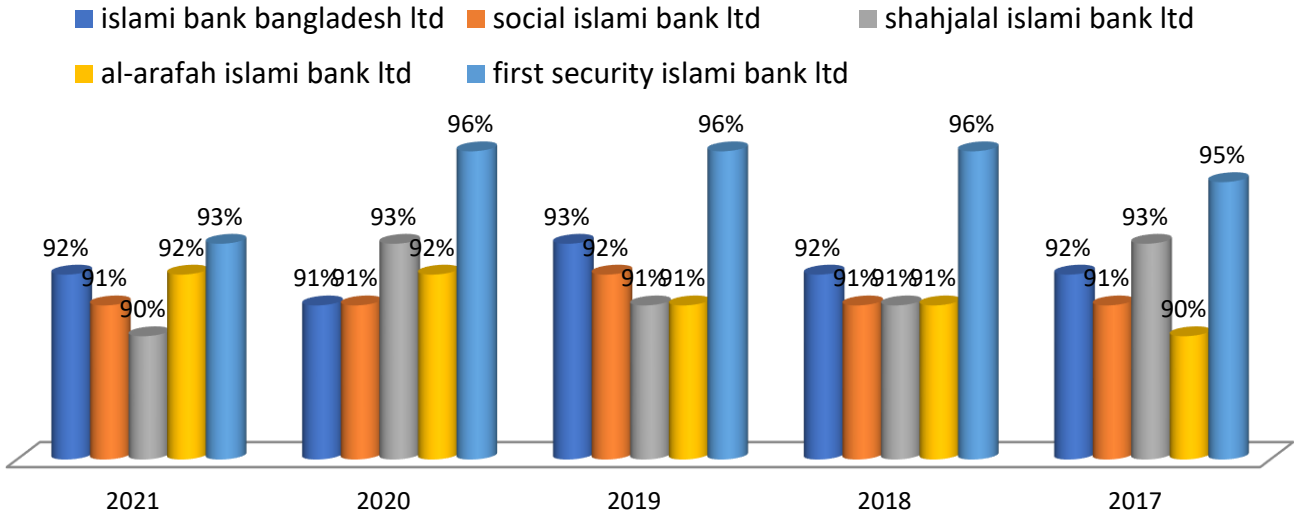
$$\text{Debt to total Asset} = \frac{\text{short term debt} + \text{long term debt}}{\text{total assets}}$$

Particulars	2021	2020	2019	2018	2017
Islami Bank Bangladesh Ltd	92%	91%	93%	92%	92%
Social Islami Bank Ltd	91%	91%	92%	91%	91%
Shahjalal Islami Bank Ltd	90%	93%	91%	91%	93%
Al-Arafah Islami Bank Ltd	92%	92%	91%	91%	90%
First Security Islami Bank Ltd	93%	93%	96%	96%	95%

Figure: Debt to Total Asset

Higher ratios indicate greater leverage and financial risk. So, from this chart, we can say Al-Arafah Islami Bank is in a good position because this average debt to total assets, IBBL, SJIBL, SIBL, and FSIBL is in financial risk. After all collects 92% of the total assets from debt.

## Debt-to-Asset



### 5.1.7 Debt/Equity

Particulars	2021	2020	2019	2018	2017
Islami Bank Bangladesh Ltd	16.88%	15.91%	14.82%	4.77%	4.62%
Social Islami Bank Ltd	16.15%	13.43%	10.26%	10.28%	9.21%
Shahjalal Islami Bank Ltd	16.15%	13.43%	10.26%	9.84%	10.74%
Al-Arafah Islami Bank Ltd	11.76%	10.63%	12.79%	9.76%	9.63%
First Security Islami Bank Ltd	28.45%	27.15%	27.55%	23.50%	23.15%

Divide a company's total liabilities by stockholders' equity to calculate financial leverage. It shows the company's debt-to-equity ratio.

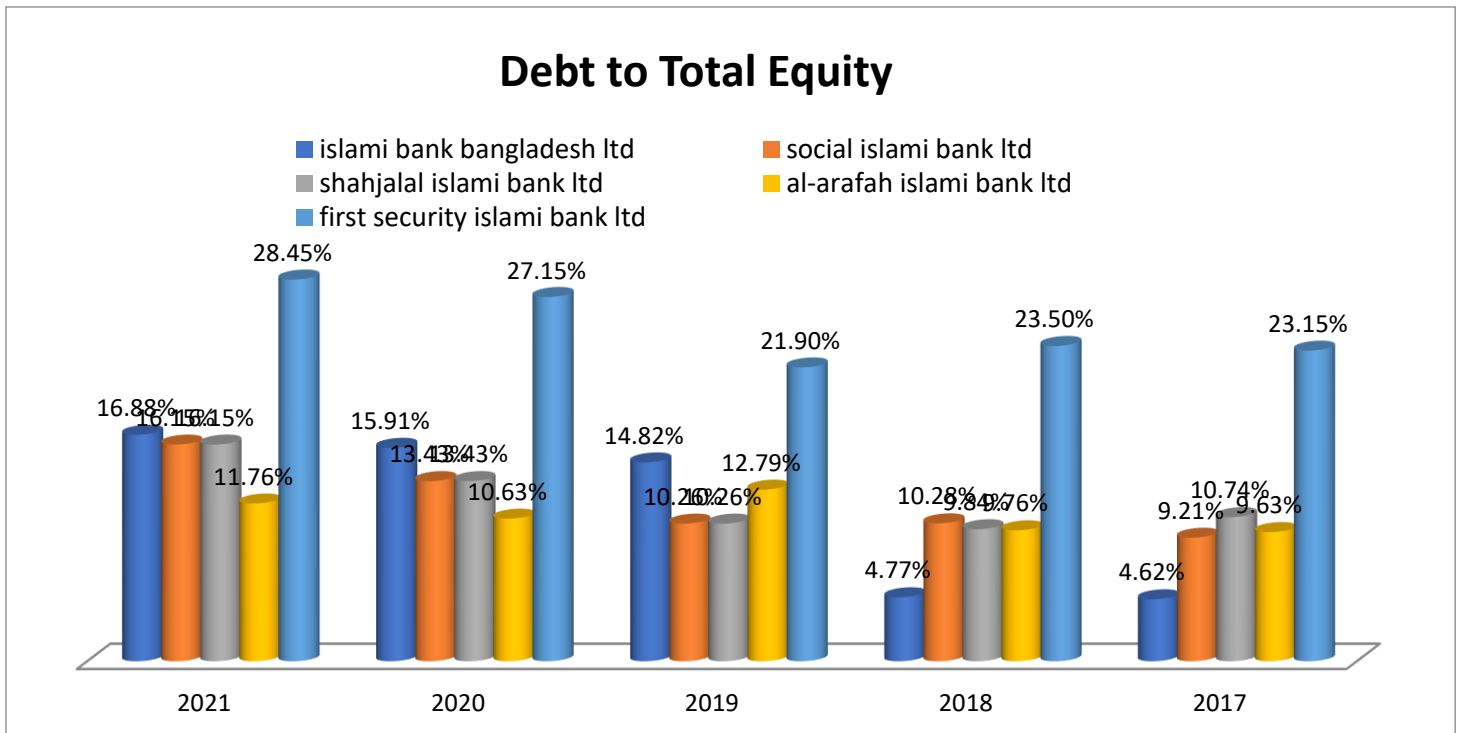


$$\text{Debt to Total Equity} = \frac{\text{total liabilities}}{\text{shareholder equity}}$$

Figure: Debt to Total Equity

The debt-to-equity ratio indicates the proportion of shareholders' equity and debt used to finance a company's assets.

Lower debt-to-equity ratios are riskier. Higher debt to equity means the business relies more



on external lenders, putting it at risk, especially at higher interest rates.

SIBL's debt-to-equity ratio is lower than IBBL, SJIBL, AAIBL, and FSIBL over three years. Because SIBL needs less shareholder capital. They have good debt-equity ratios.

### 5.1.8 EPS

Profit per share of common stock. EBIT measures a company's profitability.

$$\text{EPS} = \frac{\text{netincome}}{\text{weightedavg.outs tan dingshares}}$$

<b>Particulars</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Islami Bank Bangladesh Ltd	2.91	2.77	2.04	2.48	3.4
Social Islami Bank Ltd	1.97	3.10	2.95	2.71	1.74
Shahjalal Islami Bank Ltd	1.97	3.10	2.95	2.59	1.78
Al-Arafah Islami Bank Ltd	3.15	3.07	2.25	2.2	2.46
First Security Islami Bank Ltd	1.89	2.08	1.28	1.58	1.87

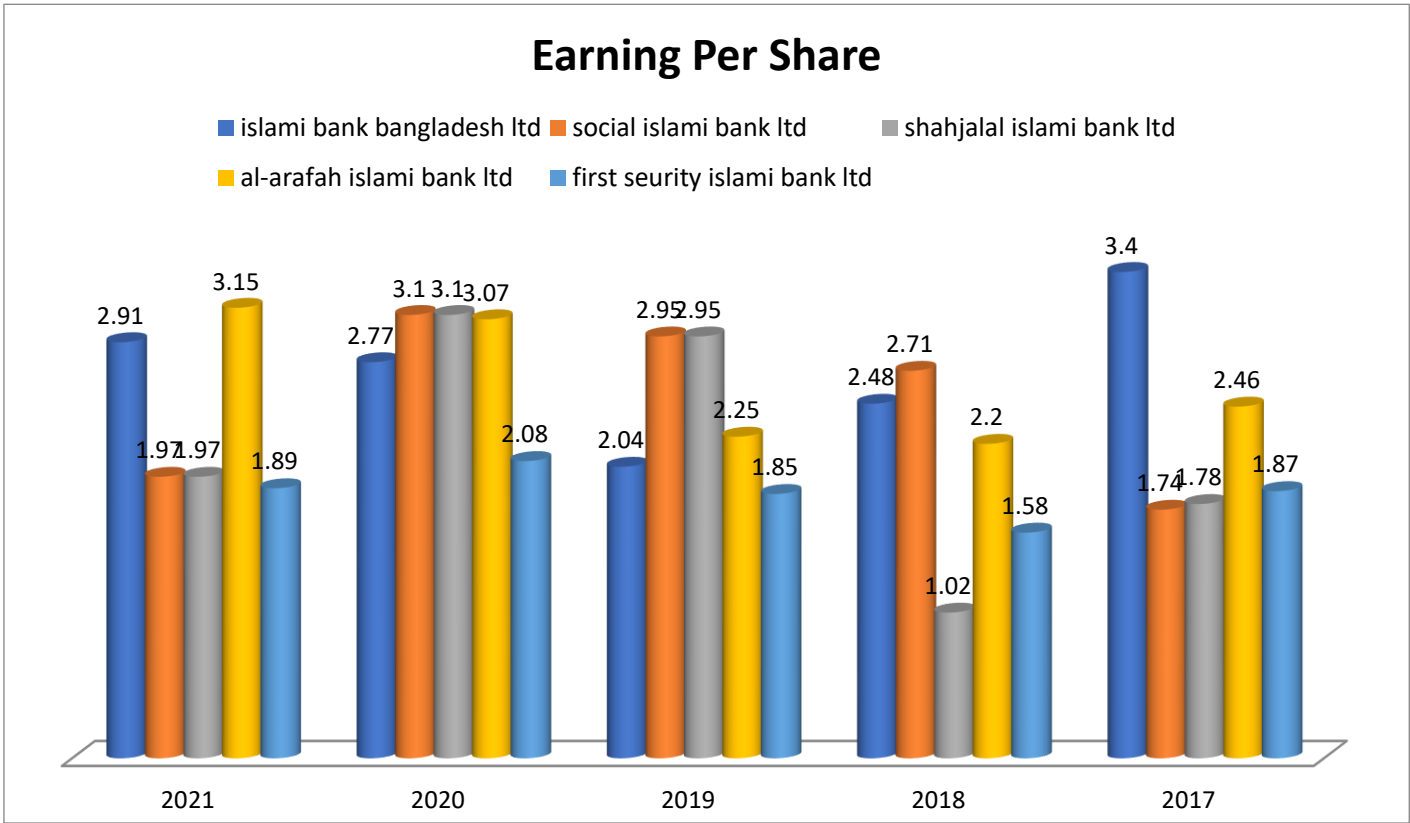


Figure: Earning Per Share

As EPS is an indicator of a bank's profitability, FSIBL hasn't been successful due to some shortcomings. In 2021, 2020, 2019, 2018, and 2017, this bank's EPS was 1.89, 2.08, 1.85, 1.58, and 1.85, helping it succeed. This bank had the lowest EPS in the country in 2014, 1.58. Al-Arafah Islami Bank Limited was good in 2021, 2020, 3.15, 3.07. IBBL's five-year EPS isn't bad.

### 5.1.9 Price Earnings Ratio

The price/earnings ratio evaluates the enterprise's relationship with its shareholders.

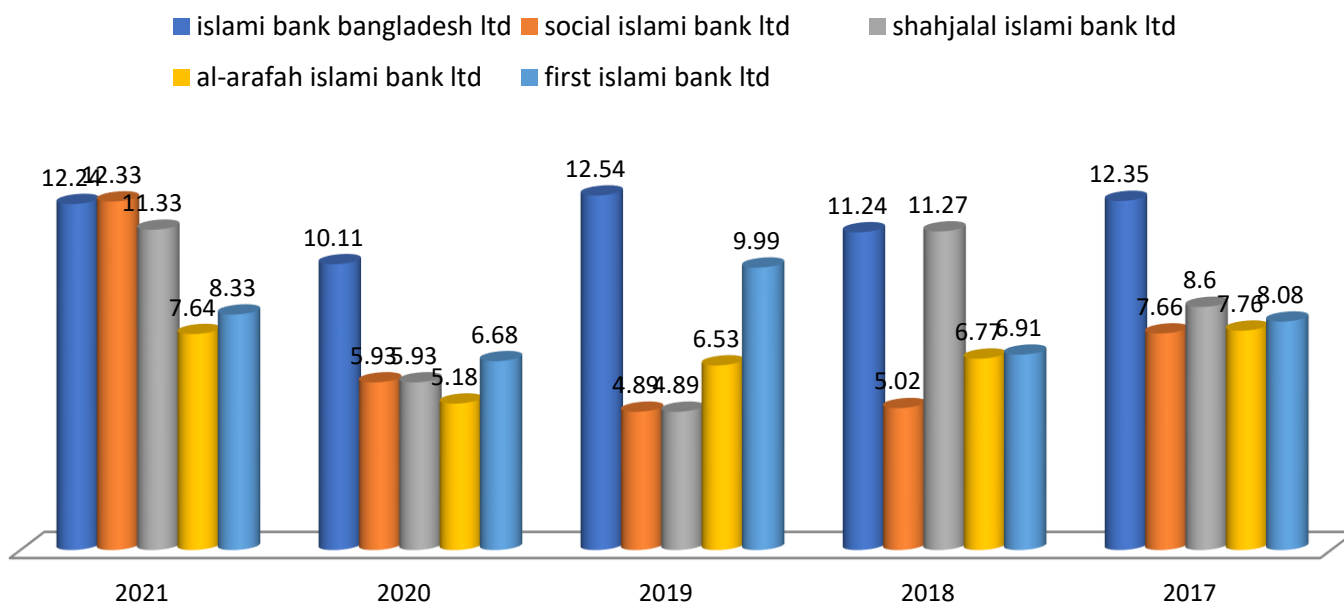
Particulars	2021	2020	2019	2018	2017
Islami Bank Bangladesh Ltd	12.24	10.11	12.54	11.24	12.35
Social Islami Bank Ltd	12.33	5.93	4.89	5.02	7.66
Shahjalal Islami Bank Ltd	11.33	5.93	4.89	11.27	8.6
Al-Arafah Islami Bank Ltd	7.64	5.18	6.53	6.77	7.76
First Security Islami Bank Ltd	8.33	6.68	6.98	6.91	8.08

$$\text{Price/earnings ratio} = \frac{\text{market price per share}}{\text{earnings per share}}$$

IBBL and SJIBL's price-earnings ratios rise from 2017 to 2021. SIBL, AIBL, and FSIBL decrease from 2017-2021. The increase in market price per share from 2017 to 2021 is behind the trend. SIBL, AIBL, and

FSIBL show improvement in 2021.

### Price Earnings Ratio



### 5.1.10 Gross profit margin

The gross profit margin chart is below. This chart shows 2017-2021 gross profit and sales revenue. This chart shows that the ratio changes every year. Tears aren't equal. Below the chart, each year's calculation is detailed.

$$\text{Gross Profit margin} = \frac{\text{grossprofit}}{\text{totalrevenue}} (\%)$$

Particulars	2021	2020	2019	2018	2017
Islami Bank Bangladesh Ltd	53%	52%	49%	47%	45%
Social Islami Bank Ltd	77%	69%	63%	55%	49%
Shahjalal Islami Bank Ltd	76%	68%	64%	37%	32%
Al-Arafah Islami Bank Ltd	52%	48%	46%	37%	48%
First Security Islami Bank Ltd	57%	52%	53%	29%	37%

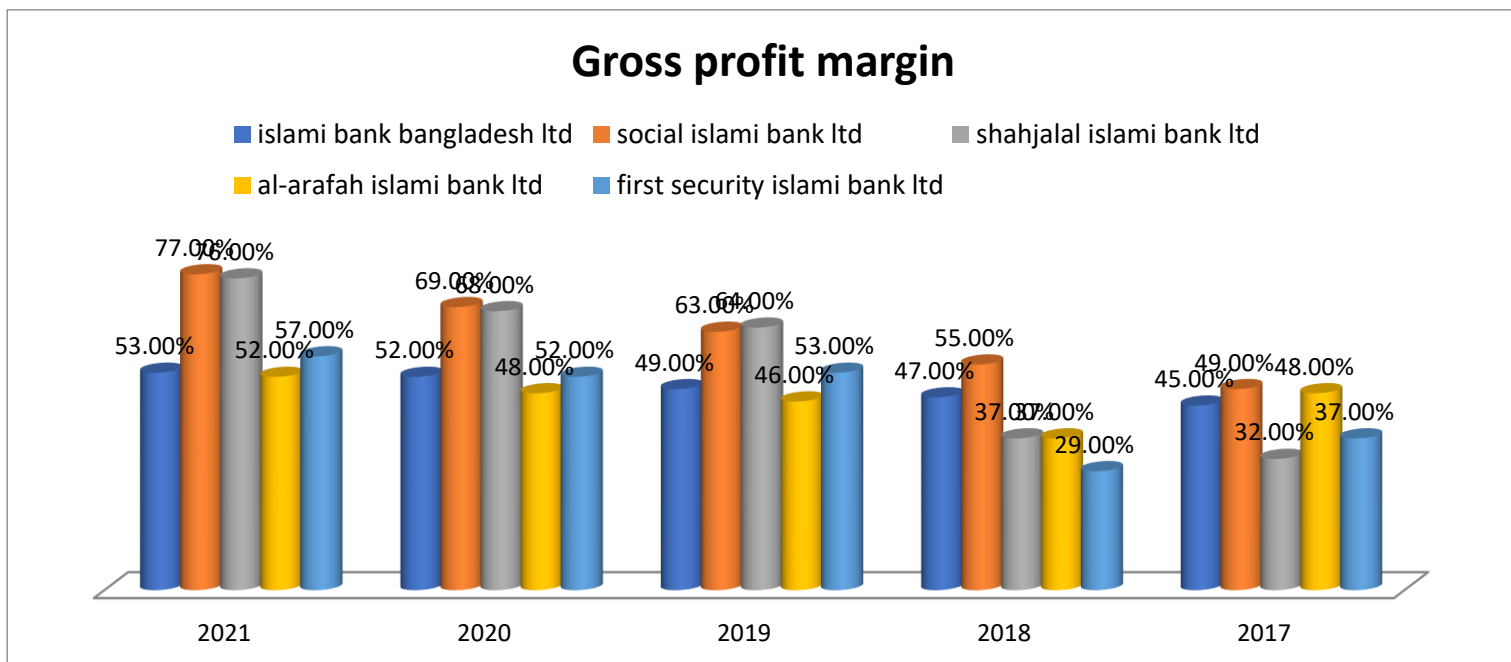


Figure: Gross profit Margin

In 2021, 2020, 2019, 2018, and 2017 the gross profit of Islami Bank Bangladesh Ltd. is 53%, 52%, 49%, 47% & 45%, and Social Islami Bank Ltd. is 77%, 69%, 63%, 55% & 50%. 76%, 68%, 64%, 38%, 32%; 52%, 48%, 46%, 37%, 49%; Al- Arafah Islami Bank Ltd. 57%, 52%, 53%, 29%, 38%.

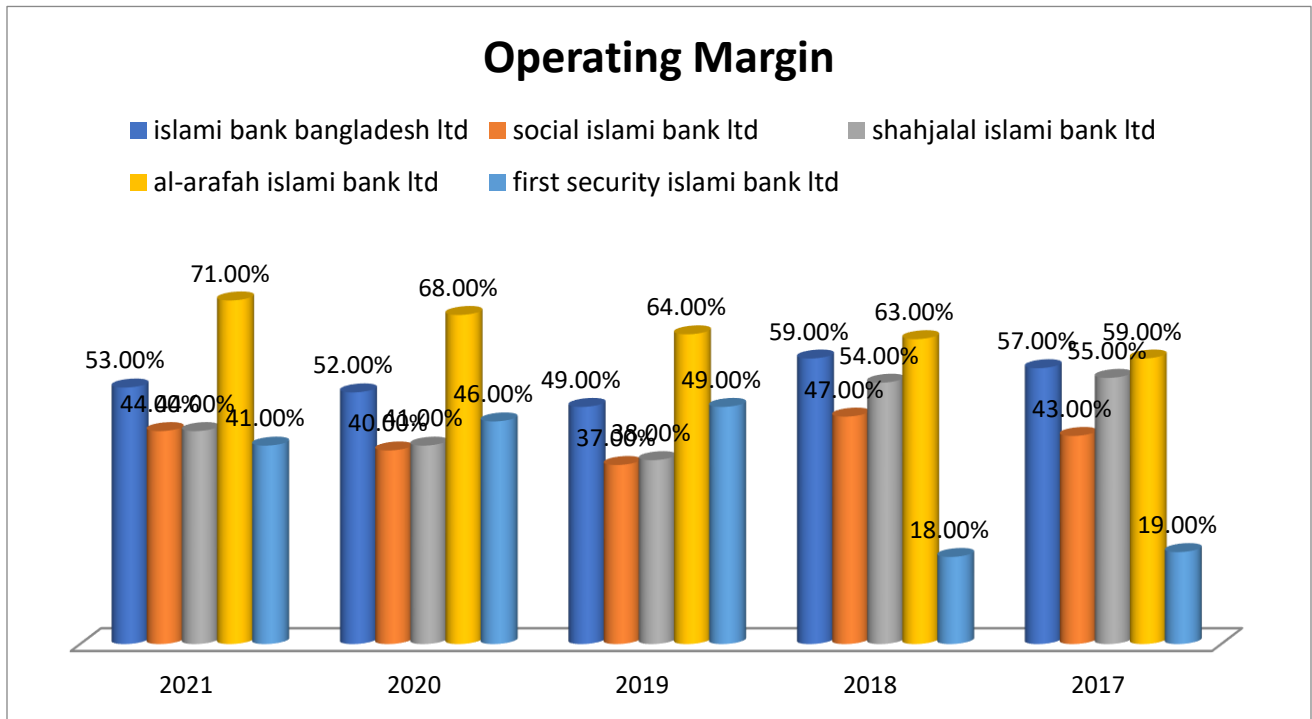
In 2017, Social Islami Bank Ltd. managed its labor force and capital more efficiently than Islami Bank Bangladesh Ltd. Social Islami Bank has the highest gross profit margin in 2021, 2020, and 2019.

### 5.1.11 Operating Margin

Operating margin measures how much of a company's revenue remains after variable production costs are deducted. A company needs a healthy operating margin to cover fixed costs like debt interest. "Operating profit margin"

$$\text{Operating Margin} = \frac{\text{operating profit}}{\text{total revenue}} \text{ (percentage)}$$

Particulars	2021	2020	2019	2018	2017
Islami Bank Bangladesh Ltd	53%	52%	49%	59%	57%
Social Islami Bank Ltd	44%	40%	37%	47%	43%
Shahjalal Islami Bank Ltd	44%	41%	38%	54%	55%
Al-Arafah Islami Bank Ltd	71%	68%	64%	63%	59%
First Security Islami Bank Ltd	41%	46%	49%	18%	19%



**Figure: Operating Profit Margin**

After paying interest and tax, the Al-profit Arafah Islami ratio in 2021 is 71%, which is higher than IBBL, SIBL, SJIB, and FEIBL. Al-Arafah Islami Bank has the highest operating profit margin in 2021, and 2020.

#### 5.1.12 NPV

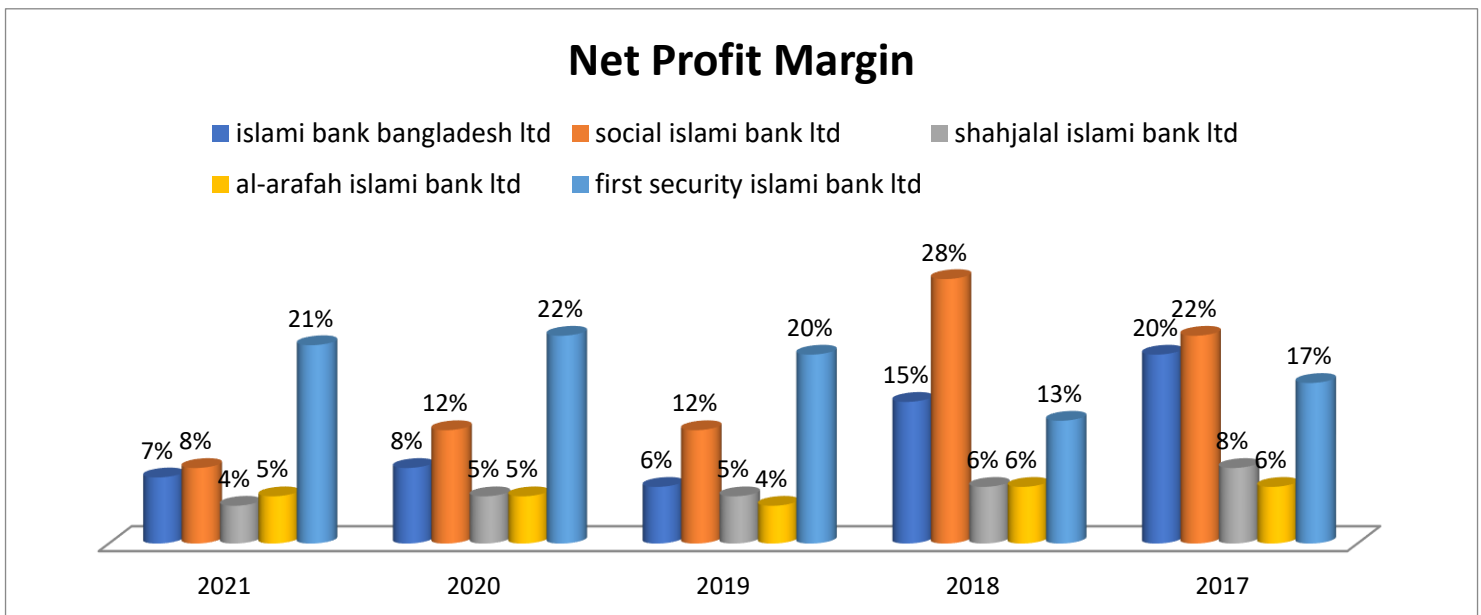
Net profit margin is the percentage of revenue remaining after deducting operating expenses, interest, taxes, and preferred stock dividends.

$$\text{Net Profit Margin} = \frac{\text{net income}}{\text{total revenue}} \text{ (percentage)}$$

Particulars	2021	2020	2019	2018	2017
Islami Bank Bangladesh Ltd	7%	8%	6%	15%	20%
Social Islami Bank Ltd	8%	12%	12%	28%	22%
Shahjalal Islami Bank Ltd	4%	5%	5%	6%	8%
Al-Arafah Islami Bank Ltd	5%	5%	4%	6%	6%
First Security Islami Bank Ltd	21%	22%	19%	13%	17%

**Figure: Net Profit Margin**

In this graph we can see that in 2021, 2020, 2019, 2018, and 2017, the net profit of Islami Bank Bangladesh Ltd. is respectively 7%, 8%, 6%, 15%, 20%, and Social Islami Bank Ltd. is respectively 8%, 12%, 12%, 28%, and 22%, and Shahjalal Islamic bank Ltd. is respectively 4%, 5%, 5%, 6%, 8% and Al- Arafah Islami Bank Ltd. is respectively 5%, 5%, 6%, 6%, 6% and First Security Islamic Bank Ltd. Gross profit margin respectively 21%, 22%, 20%, 13%, and 17%.



AIBL is less profitable than other banks because the net profit margin indicates a company with better cost control. In 2021, 2020, 2019, 2018, and 2017 poorer than other banks. Al-Arafah Islami Bank Ltd controls costs better than other banks.

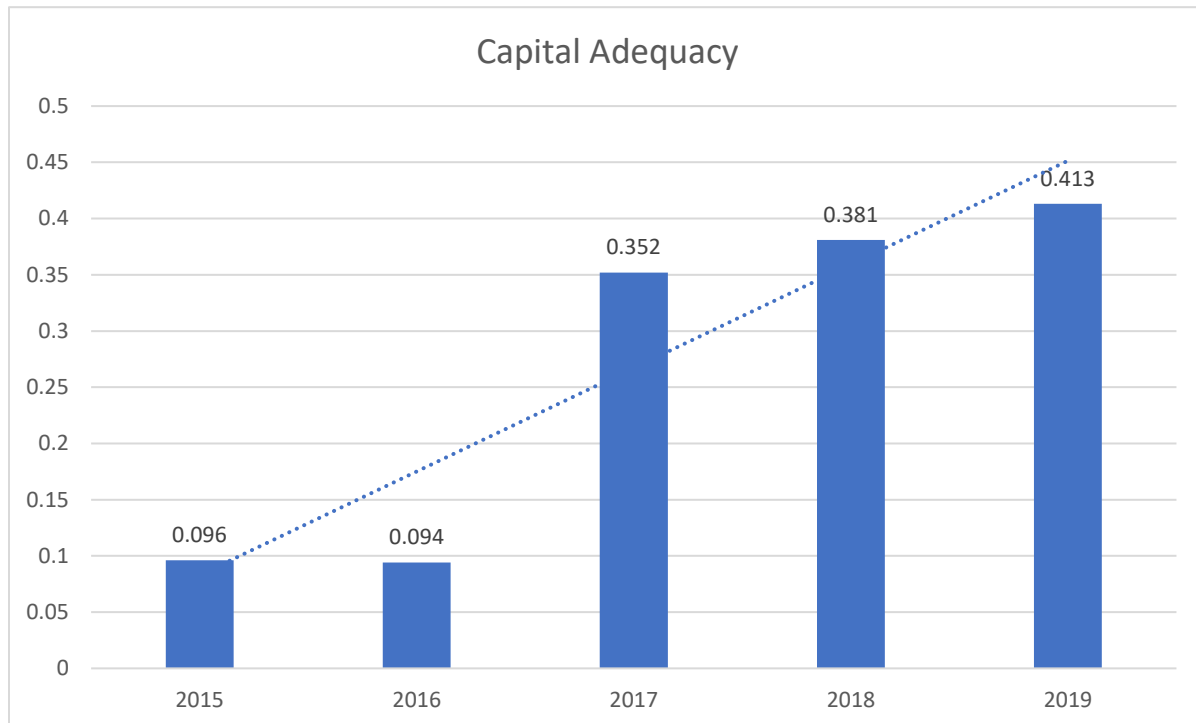


## 5.2 CAMEL Evaluation and Ratio

This article employed the CAMEL test, which measures capital adequacy, asset quality, management quality, earning capacity, and liquidity, to assess and contrast the performances of Islamic banks in Bangladesh.

**Table 1. Capital Adequacy**

	2015	2016	2017	2018	2019
IB	0.0967	0.094	0.3516	0.3812	0.4131



**Graph-1. Capital Adequacy**

The capital adequacy ratio for Islamic banks has a growing tendency; it has remained essentially constant over the selected period, according to the table and graph 1.

**Table 2. Asset Quality**

	2015	2016	2017	2018	2019
IB	0.006	0.007	0.008	0.006	0.011



**Graph-2. Asset Quality**

According to the table and graph-2 it can be said that for asset quality Traditional private commercial banks perform better than Islamic banks.

**Table 3. Management Quality**

	2015	2016	2017	2018	2019
IB	0.411	0.458	0.472	0.563	0.568

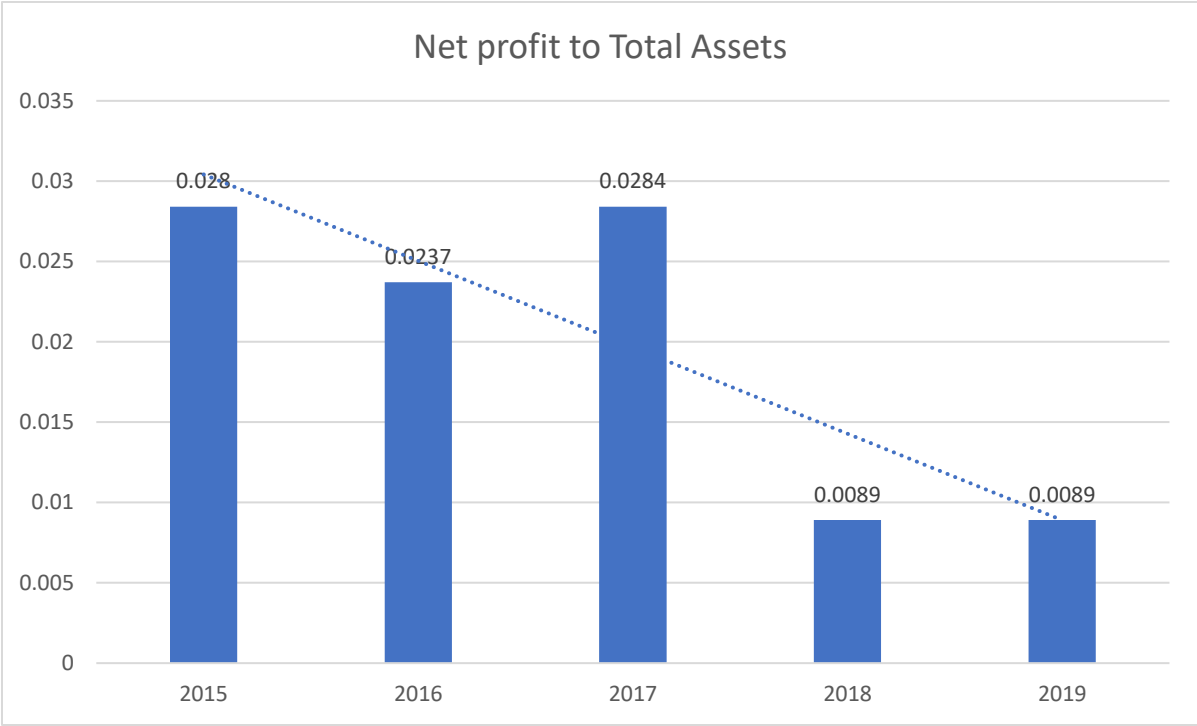


**Graph-3. Management Quality**

It may be concluded from the table and graph 2 that traditional private commercial banks outperform Islamic institutions in terms of managerial quality.

**Table 4. Earnings: Net Profit to Total Asset**

	2015	2016	2017	2018	2019
<b>IB</b>	<b>0.028</b>	<b>0.028</b>	<b>0.023</b>	<b>0.008</b>	<b>0.0089</b>

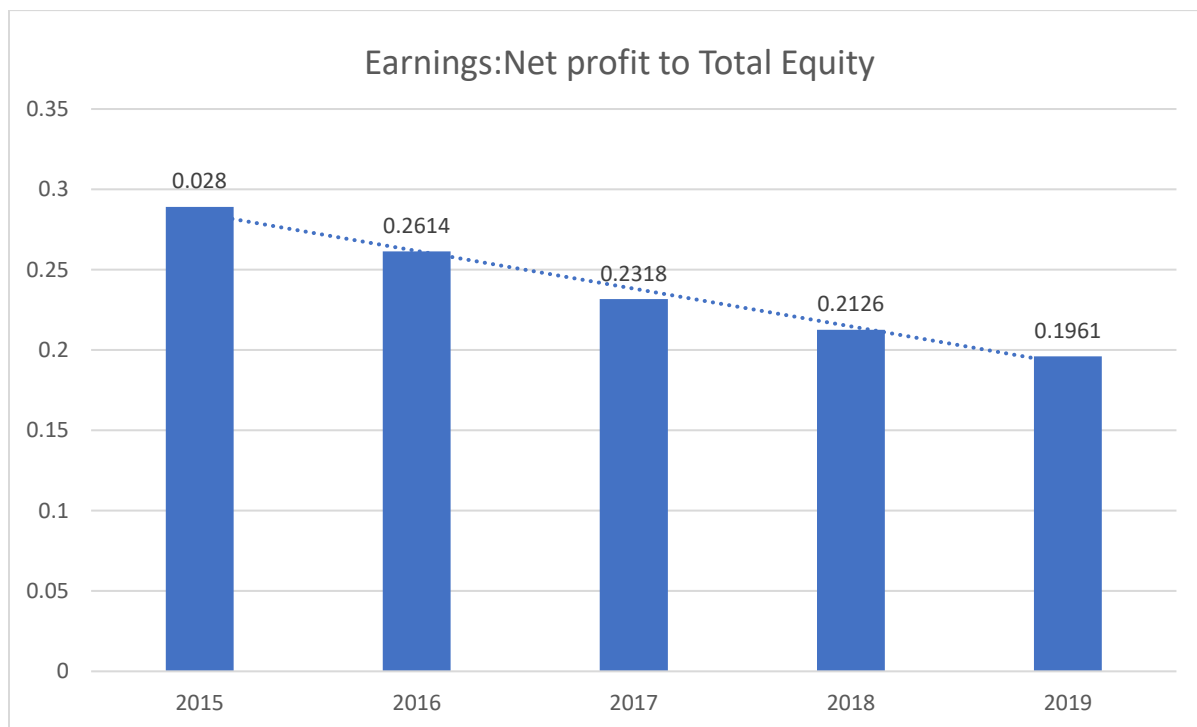


**Graph-4. Earnings: Net Profit to Total Asset**

Based on the table and graph 2, it's possible that Conventional Private Commercial Banks and Islamic Banks' net profit to total asset ratios differ in 2015–2016, but after that, the performances are very similar.

**Table 5. Earnings: Net Profit to Total Equity**

	2015	2016	2017	2018	2019
<b>IB</b>	<b>0.2891</b>	<b>0.2614</b>	<b>0.2318</b>	<b>0.2126</b>	<b>0.1961</b>

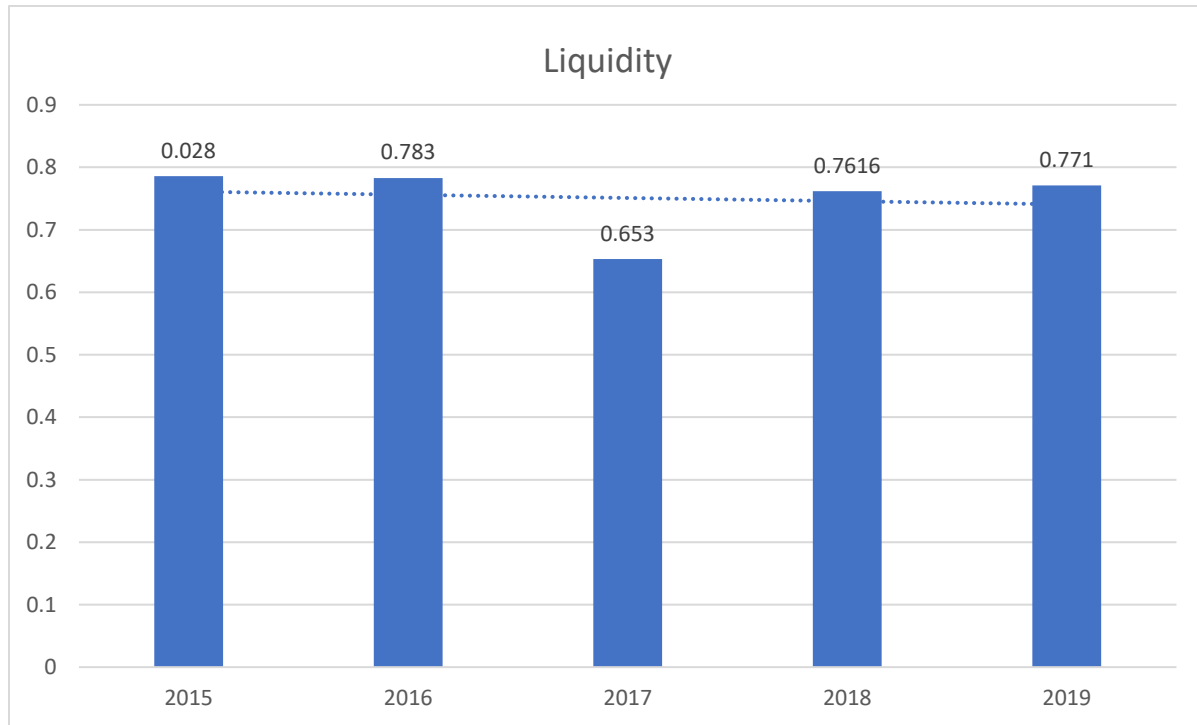


**Graph-5. Earnings: Net Profit to Total Equity**

Based on the graph and table 5, it's possible that traditional private commercial banks and Islamic banks performed differently in 2015–2016 than they did thereafter in terms of net profit to total equity.

**Table 6. Liquidity**

	2015	2016	2017	2018	2019
IB	0.786	0.783	0.6530	0.7616	0.771

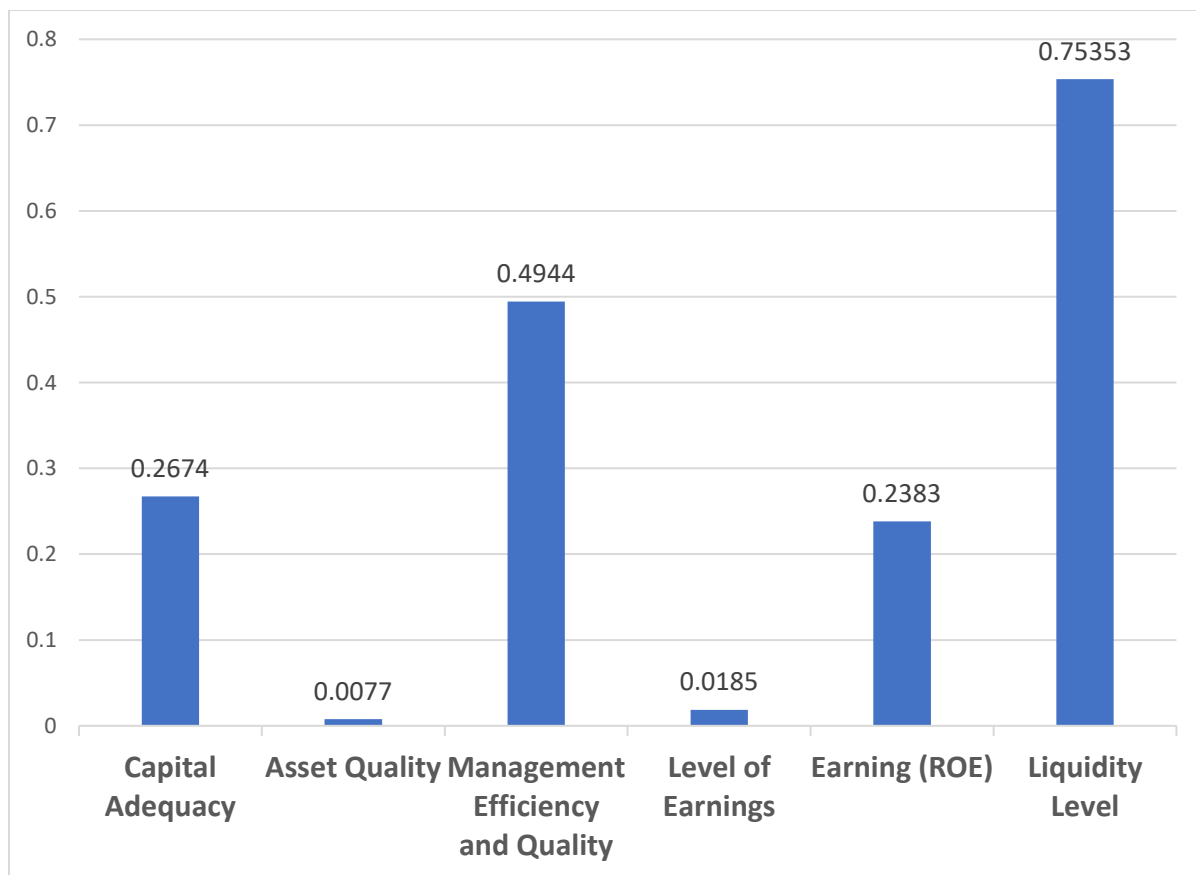


**Graph-6. Liquidity**

It may be inferred from the table and graph 6 that traditional private commercial banks and Islamic banks perform nearly similarly in terms of liquidity.

**Table 7. CAMEL on Islamic Banks**

<b>Capital Adequacy</b>	<b>Asset Quality</b>	<b>Management Efficiency and Quality</b>	<b>Level of Earnings</b>	<b>Earning (ROE)</b>	<b>Liquidity Level</b>
<b>0.2674</b>	<b>0.0077</b>	<b>0.4944</b>	<b>0.0185</b>	<b>0.2383</b>	<b>0.75353</b>



**Graph-7: CAMEL on Islamic Banks**

## **CHAPTER 6:**

# **Conclusion And Recommendation**



## Chapter 6

### Conclusion and Recommendation

#### **Conclusion**

Ensuring continuing compliance with important business and monetary services-related legislation, as well as the corporate management structure in banks is one of the most urgent issues facing the financial sector today. Maintaining constant good regulation of the financial sector is difficult for this reason. Due to established accountability and management oversight, employee morale will rise, which will enhance the bank's professional reputation and brand expansion. The company's excellent reputation in the public eye will help win support from the industry for its plans to strengthen corporate management.

#### **Recommendation**

Laws governing various commercial and monetary services as well as bank corporate management structures are urgently needed today. It's challenging to regulate the financial industry. Accountability and management oversight will improve staff morale, brand perception, and image. The company's management efforts are supported by its positive public image. My research shows that corporate governance raises all ratios. Indicators of the economy, profitability, and stocks Profit, wealth, solvency, and market value of a bank are all enhanced by good governance.

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