

# **Assessing the Performance of Selected Islamic Banks: Evidence from Bangladesh**

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## **Abstract**

The study aims to assess Islamic banking performance in Bangladesh using fundamental profitability ratios. The secondary data is collected from the financial statements of six respective Islamic Banks in Bangladesh from 2010 to 2019. The study applied the ratio analysis to measure the performance of selected banks. Finally, we used trend analysis to identify the selected ratios and factors' present and future movement. The ratio analysis concluded that Al-Arafah Islami Bank Limited (AIBL), Export Import Bank of Bangladesh Limited (EXIM), Social Islamic Bank Limited (SIBL), and Shahjalal Islami Bank Limited (SJBL) are slightly in a good position in terms of profitability ratio and management efficiency ratio. In terms of credit risk performance, all banks are in a declining position. SIBL and IBBL are doing well in management ability. However, the study found that AIBL seems to be the most competent in terms of overall performance. Finally, the study is concluded that Islamic banks have a significant contribution to the banking industry of Bangladesh. This study provides clear guidelines about the basic performance indicators, risk, and management efficiency. The investors, stakeholders and the responsible parties should be more concerned while measuring the performance of overall Islamic banking in Bangladesh.

## **Keywords**

Islamic Banks, Performance, Profitability, Management Efficiency, Bangladesh

## **INTRODUCTION**

Three ways can broadly define Banks are economic activities, service, and legal basis of existence. Banking institutions serve with several financial instruments, which are one of the most important sources of business (Rose & Hudgins, 2013). Islamic Banking is a concept that indicates the practice of banking activities by following the economic and financial principles of Islam. In Islamic banking, it is a constraint with a predetermined rate of return and focused more on equity participation, leasing as well as profit and loss sharing (Hassan, 1999).

There are four primary objectives of Islamic banking. Firstly, it is always expected to provide financial services in line with the Shariah law. Secondly, it is development-oriented in nature as it follows profit and loss sharing methods and establishes a direct relationship between

the bank's return and the investment made by its customer. Thirdly, it expects to promote social welfare as it allocates financing projects aimed at society's development. Finally, it aims to ensure equitable distribution of income and other parties related to a transaction. (Ali Akkas, S.M., 2008)

Widespread disclosure of the Islamic banking system in the recent era is noteworthy, and its extension began to increase because of Muslim society's realization of the existence of Islamic banking. The revolution of the Islamic Banking Industry in Bangladesh has evolved in the late twentieth century by establishing Islamic Bank Bangladesh Limited.

Abduh et al. (2013) differentiated Islamic banking from Conventional Banking by means of some unique foundation and features though both banking systems follow the same universal financial system. Irrespective of that unique foundation, Islamic banks are gaining more market shares because the scope of the competition is equivalent to conventional banks. The authors noticed a high degree of a performance gap between Islamic Banking and conventional banking because of a lack of effective business strategies.

The introduction of an interest-free banking system in Islamic banking has created a new window in payment mechanisms and financial intermediaries. However, it is an implementation in managing the fixed return of deposits and assets, moral hazard in maintaining Islamic shariah principal and agency issues raises the significant matter of concern in Bangladesh (Hassan, 1999). However, Islamic banking is one of the popular banking practices in Bangladesh, which has already secured the highest amount of market share in recent time.

## **ISLAMIC BANKS IN BANGLADESH**

Islamic banking has been recognized as one of the most dominated and popular banking services, along with its significant increasing public demand. In Bangladesh, Islamic Banking currently holds a 25% market share of the banking industry. It is significantly contributing to the Sustainable Development Goals (SDGs) through its substantial contribution in impact investing.

As of June 2020, Bangladesh Bank's report stated that out of 59 secluded banks, there are eight full-fledged Islamic banks currently operating in Bangladesh. These full-fledged Islamic Banks hold a total of 1274 branches out of 10588 branches of 59 scheduled banks. Moreover, a total of 21 conventional commercial banks also started operating the Islamic banking windows and branches. Also, a few conventional banks named Mercantile Bank, Midland Bank, and NRB Commercial Bank started offering Islamic Shariah-based banking. Among these banks, Standard Bank, Jamuna Bank, and NRB Global Bank have permission to be converted into full-fledged Islamic banks by 2021. At the end of June 2020, the Islamic Banking industry successfully reached a total deposit of BDT 2913039.01 million, total investments of BDT 2754659.63 million, and total employment of about 36582 people in number, which were increased by 15.11%, 9.02%, and 0.59%, respectively compared to end of June 2019.

Previous studies also attempted to identify the performance and efficiency noticed in the research (Tarawneh 2006; Abduh et al., 2013; Tarawneh, 2006; Alam & Alam, 2017). Most researchers suggested that the Islamic banking and finance industry in Bangladesh adopt Shariah-compliant more and more fintech, increase experienced shariah supervisory broad, and increase CSR and R & D activities to increase efficiency. In line with the concept built in

previous studies, this paper is to construct the performance of Islamic Banks in Bangladesh in terms of profitability ratios, credit risk performance and management efficiency. Firstly, the study developed literature regarding ratio measures for profitability assumption. Secondly, the study showed a trend analysis of the ratios, and finally, the study suggested several policy recommendations. Moreover, many researchers applied ratio analysis to measure commercial banks' performance in Bangladesh, but a few studies have studied the Islamic banks of Bangladesh (Rahman, 2016; Karim, 2013). In this research, we will measure the financial performance of the top six out of eight Islamic Banks in Bangladesh.

## **LITERATURE REVIEW**

In accordance with the research demands, researchers evaluate firm performance in different ways even though many researchers do not define their concept on it. (Hult et al., 2008) divided this performance concept into three forms: financial performance, operational performance, and overall effectiveness. The indicators of financial performance can be the return on investment, return on equity, profit margin, return on sales, return on assets, price of stocks, earning per share, and sales growth. Operational performance indicators are managerial efficiency, innovation, credit risk performance, and share price in the market. The overall effectiveness indicators are sustainability, reputation, the achievement of a goal, and stability in overall performance. Here, in this study, we will measure the performance of Islamic banks using three indicators: profitability ratio, managerial efficiency, and credit risk performance. The profitability ratio includes Return on Asset Ratio (ROA) and Return on Equity Ratio (ROE). Credit Risk Performance contains Equity to Total Assets (ETA) and Capital Adequacy Ratio (CAR). Finally, Managerial efficiency includes the Income to Expense Ratio (IER) and Asset Utilization ratio (AU).

Haque (2013) studied at a private commercial bank in Bangladesh, intending to determine the financial performance of selected private commercial banks. Data was collected from the bank's annual report from 2006 to 2011. The ratio analysis included profitability ratio, liquidity ratio, credit risk performance, and management efficiency. The study found no earmarked relationship of bank performance with its generation. Still, firm financial and operational performance mostly depends on management efficiency in formulating and implementing strategic plans with proper monitoring. Selvam (2011) found that liquidity ratios, leverage ratios, and profitability ratios significantly impact a company's financial performance.

Many researchers had used ratio analysis to measure commercial bank performance, but a few researchers used ratio analysis to research performance analysis of Islamic Banks in Bangladesh. In this study, ratio analysis is applied to determine the performance of six Islamic Banks in Bangladesh.

### **Profitability Ratio**

To identify the relationship between profitability ratios and market share prices (Issah & Ngmenipuo, 2015) analyzed pooled OLS regression on the publicly traded banking financial institutions in Ghana. Data was collected from the annual report of bank financial institutions in Ghana from 2009 to 2013 to examine the relationship between firm profitability ratio, performance, and market share prices. The study found a linear relationship between a

company's profitability ratio and its financial performance. A previous study with a similar objective (Dehuan & Jin, 2008) also found similar findings in their study.

There are several different ratios to measure a firm's profitability, and each of the ratios measures firm's performance from different aspects (Hill et al., 2015). In this research, we select two of the most commonly used profitability ratios, such as Return on Asset Ratio (ROA) and Return on Equity Ratio (ROE).

Although there are many studies on conventional banks that used profitability ratio, only a few used ROA and ROE on Islamic Banks in Bangladesh (Karim, 2013; Rahman, 2016; Robin et al., 2018), this study selects these variables to measure the profitability of Islamic Banks in Bangladesh, contributing the literature sector of Islamic banking in Bangladesh.

### **Credit risk performance**

Credit risk refers to the possibility of any loss from the failure of a borrower to repay financial obligations or loans. Although many financial instruments emerge throughout banks' activities, including in the book of banking and the book of trading, those, directly and indirectly, impact balance sheet items or off-balance sheet items from where credit risk may occur. Still, loans and advances are the most notable sources of credit risk. Apart from loans, other financial instruments are bank acceptance, Trade financing, Foreign exchange transactions, bank commitments and guarantees, transaction settlements and derivative instruments, including options, Swaps, futures, and forwards.

Credit risk management's main objective is to minimize non-performing assets by maximizing the company's performing assets, ensuring efficient recovery of loans and advances, and managing them properly. There should be an appropriate lending guideline focusing on the industry and business segment. It should also have a clear definition and regulation of lending caps, single borrower and group limit, and types of loan facilities. Finally, constructive credit risk grading should follow an adaptive credit policy.

Million et al. (2015) analyzed descriptive statistics and panel data regression on the impact of credit risk on commercial banks' profitability performance in Ethiopia to determine the relationship between credit risk management and the company's financial performance. Data was gathered from 8 commercial banks and National Bank for 12 years from 2003 to 2014. The research found positive and significant relationships between credit risk performance and a company's financial performance. Previous studies with similar objectives (Roelse, 2014; Goderis et al., 2011; Kuo & Enders, 2004; Gottschalk, 2007; Poudel, 2012; Hosna et al., 2009; Achou & Tenguh, 2008; Kolapo, 2012; Musyoki & Kadubo, 2012) also found similar findings in their study.

Another study examined the influence of credit risk management on a company's financial performance in Kenya's Central Bank (Fredrick, 2012). The study found a significant positive influence of credit risk performance on a company's financial performance using the regression model and correlation coefficient.

Poudel (2012) conducted a study on the impact of credit risk management on commercial banks' financial performance in Nepal. This study examines credit risk management parameters, including default rate, cost per loan assets, capital adequacy ratio, and their impact on a bank's financial performance. Data were collected from 31 Nepalese Commercial Banks' financial

reports for 11 years spanning, i.e., from 2001 to 2011. The research found all parameters have an inverse relationship with banks' financial performance. The study concluded that banks should develop strategies that minimize credit risk and enhance bank profitability. Different ratios have been used to measure a firm's credit risk performance, and each of the ratios measures firm's credit risk performance from different aspects (Demirgüç-Kunt & Huizinga, 1999). This study selects the most commonly used credit risk performance ratio, such as Equity to Total Assets (ETA).

### **Managerial Efficiency**

To achieve economic efficiency, efficient and expert managers should have special financial and non-financial facilities for outstanding and excellent management in an organization with greater returns than costs (Grossman 1980). If skilled manager does not have any remuneration, their output may be minimized. Thus, investors should pay regular remuneration to effective managers to encourage them to make better decisions and output, which is needed to achieve the organization's long-term goal. Most researchers found a positive relationship between special management remuneration and firm performance, although some researchers revealed a negative relationship between management remuneration and firm returns.

Azlina et al. (2017) analyzed Value Added Intellectual Coefficient (VAIC) on human capital efficiency and Malaysian firm performance. Data were collected from the annual report of all technological companies listed under the Ace market and market in Malaysia for 2009 to examine the relationship between human capital efficiency and firm financial performance. The research found a positive and significant relationship between companies' human capital efficiency and financial performance.

To examine the influence of management characteristics, including management capability, the entrenchment of management, agency costs, and overconfidence of management on firm financial performance, Salehi and Moghadam (2019) conducted a study on the relationship between management characteristics and firm performance with the sought. Data was gathered from financial statements of listed firms in the Tehran Stock Exchange for seven years spanning from 2009 to 2015. The research found that management capability and management overconfidence positively affect firm performance. Agency costs do not affect firm performance, and management entrenchment negatively affects firm financial performance. Research with similar objectives (e.g., Mishra, 2014; Chang & Zhang, 2015; Andreou et al., 2017; Serra et al., 2016; Yang & Liu, 2012; Fairchild, 2011; Eshraghi & Taffler, 2012) also found similar findings in their research.

Previous researchers have used several different ratios to measure a firm's management efficiency, and each of the ratios measures firm's management efficiency from different aspects (Yang & Liu, 2012). In this study, we select the most commonly used managerial efficiency ratio, the income to the expense ratio (IER). Although there are many researches on conventional banks where used managerial efficiency ratio but a few researchers used IER on Islamic Banks in Bangladesh, this study selects this variable to measure Islamic banks' managerial efficiency in Bangladesh, which will contribute to the literature in this sector.

### **Capital Adequacy Ratio**

To find out the impact of capital adequacy on the financial performance of financial institutions in Kenya Barus et al. (2017) used multiple linear regressions to identify the impact of capital adequacy on the performance of Kenya's savings and credit societies. Data were gathered from 83 deposit-taking institutions for five years, expanding from 2011 to 2015. The study found a significant positive influence of capital adequacy ratio on the company's financial performance.

Okenwa (2017) studied the effect of capital adequacy on quoted deposit money banks' financial performance in Nigeria. Data were collected from 14 quoted banks of Nigeria for the six years from 2010 to 2015 to find out the relationship between capital adequacy and financial performance of financial institutions in Nigeria. The study found a significant positive relationship between capital adequacy ratio and the company's financial performance using statistical tools of multiple regression analysis. Prior studies also found similar results in their research when they investigated the relationship between capital adequacy ratio and company performance (Naceur & Goaid, 2001; Allen N. Berger, 1995; Smirlock, 1985; Fiordelisi et al., 2011; Mathuva, 2009).

To investigate the influence of capital adequacy and cost-income ratio on commercial banks' financial performance, Bhavani et al. (2017) conducted a study on the impact of Capital Adequacy and Cost Income Ratio on the Performance of Nepalese Commercial Banks. Data were collected from 20 Nepalese Commercial Banks' annual reports for six years spanning from 2009-10 to 2014-15 through a total of 120 observations and analyzed using the regression model. the study found that the capital adequacy ratio and cost-income ratio influenced the return on assets negatively. Although there are many researchers who utilized capital adequacy ratio, only a few researches used CAR on Islamic Banks in Bangladesh. Therefore, this study selects this variable to measure the capital adequacy of Islamic Banks in Bangladesh to contribute to the literature on this sector.

### **Management Ability**

Ojokuku (2012) conducted a study on the impact of leadership style on organizational performance to identify leadership style's influence on overall organizational performance. A structured questionnaire was distributed to 60 respondents, including branch managers, heads of operations, and accountants of 20 banks in Nigeria. After collecting the required information from all 60 respondents using the correlation coefficient's statistical tools, the research revealed that they have both positive and negative leadership style dimensions on the company's performance. The study concluded that a company's future performance could be predicted by analyzing its leadership style, so dynamic and transformational leadership is needed for better performance in the future.

Herdinata (2019) investigated the relationship between asset utilization and company performance based on the correlation coefficient of Asset Utilization and Company Performances. Data were collected from an annual report of 130 companies in Indonesia from 2001 to 2016. The study found a significant relationship between asset utilization and financial performance. The research concluded that the management who have more capability to utilize assets earn a greater return than others.

Akinleye and Dadebo (2019) analyzed Assets Utilization and Performance of Manufacturing Firms in Nigeria to determine the impact of asset utilization on the financial performance of manufacturing firms in Nigeria. Data were collected from the annual report of selected firms over the five years from 2012 to 2016. The study found a significant influence of a company's asset utilization on its financial performance.

Prior studies used several different ratios to measure a firm's management ability, and each of the ratios measures firm's management ability from different aspects (Khandker, 1988). In this study, we select the most commonly used management ability ratio, Asset Utilization Ratio (AUR). Only a few studies used AUR on Islamic Banks in Bangladesh. Therefore, this study selects this variable to measure Islamic banks' management ability in Bangladesh, contributing to the literature in this sector.

Finally, many researchers applied ratio analysis to measure commercial banks' performance in Bangladesh, but a few studies have studied the Islamic banks of Bangladesh. In this research, we will measure the financial performance of the top six out of eight Islamic Banks in Bangladesh.

## **OBJECTIVE OF THE STUDY**

The specific aims of this study are to analyze the present situation of Islamic banking in Bangladesh, assess the profitability of Islamic banks, and apply various measures to evaluate efficiency in the Islamic Banking sector in Bangladesh. Stability in profitability and management efficiency are the basic requirements for competitive advantages in the banking industry. The banking industry is competitive, although Islamic banking regularly gets customer acceptance. This study finds the scope to need the analysis of the financial performance of Islamic banking Bangladesh.

There is a lack of study on performance analysis of Islamic banks in Bangladesh. To contribute to this gap, this research conducting with a study period 2010 to 2019 by which authors give short recommendations based on the findings and analysis.

## **METHODOLOGY**

### **Ratio Analysis**

There are several tools to measure the financial performance of banks. However, this study used ratio analysis measurements to analyze the performance of selected banks, which has been adopted by many researchers, such as Chen and Shimerda (1981), Sabi (1996), and Ahmad and Hassan (2007). This methodology removes disparities, which is one of the main advantages of ratio analysis. Commonly, banks used in this research are not equal in terms of size. This ratio analysis method brings all banking firms at par and removes disparities. In this study, data has been collected from the eight Islamic banks in Bangladesh. But due to non-comparison characteristics, two banks (ICB & Union Bank) are not included in this ratio analysis that means

the other six banks have been included. The financial data used in this study are obtained from the annual report of respective banks spanning from 2010 to 2019.

**Ratio Used:**

<b>Profitability Ratio</b>	<b>Credit Risk Performance</b>	<b>Capital Adequacy Ratio</b>	<b>Managerial Efficiency</b>	<b>Management Ability</b>
Return on Asset Ratio (ROA)				
Return on Equity Ratio (ROE)	Equity to Total Assets ETA	CAR	Income Expense Ratio (IER)	Asset Utilization (AU)

**Profitability Ratio:**

1. **Return on Asset Ratio (ROA):** ROA ratio is an indicator to measure a company’s profitability and managerial efficiency, which indicates how excellently a company can use its total assets. Managers, Investors, Analysts, Brokers, Dealers, and other agencies can collect a clear idea about a company’s financial soundness by analyzing this indicator (Robin et al., 2018)
2. ROA ratio is calculated by dividing a company’s net income by its total asset. In accordance with the formula, it would be expressed as:

$$\text{Return on Assets} = \text{Net Profit} / \text{Total Asset}$$

A higher ratio indicates the more efficient managerial ability, which is an indicator of better financial performance. Over 5% Return on assets is generally considered a good ratio.

1. **Return on Equity Ratio (ROE):** ROE ratio is also used to measure profitability and managerial efficiency. It measures the return or the financial performance of a bank or company in relation to the total equity. ROE is an indicator of how effectively a bank can utilize its equity to generate output.

ROE ratio is calculated by dividing a company’s net profit by its total equity. A higher ratio indicates the more standard of managerial performance.

In accordance with the formula, it would be expressed as:

$$\text{Return on Equity} = \text{Net Profit} / \text{Total Equity}$$

**Credit Risk Performance:**

**Equity to Total Assets (ETA):** ETA ratio is an indicator to measure a bank’s competency and is also used to measure the Credit Risk Performance of a bank. The Equity to Total Asset Ratio shows the amount of equity the bank has compared to the total assets it owns. It helps the bank to protect itself against any shocks in financial performance. ETA ratio shows the capacity of the bank to absorb shock for unexpected losses of loaned assets (Mosko & Bozdo, 2016)

ETA ratio is calculated by dividing a company’s equity by its total assets. In accordance with the formula, it would be expressed as:



**Equity to Total Asset = Common Equity / Assets**

The higher the percentage means, the lower the bank or company is leveraged. A less than 70% ratio is not good because it indicates that a bank or an institution is at a risky level and reduces its ability to borrow.

**Capital Adequacy Ratio (CAR):** The capital adequacy ratio is used to measure a bank's capital availability as a percentage of its risk-weighted credit exposure. This ratio is also called capital-to-risk weighted credit exposure (CRAR), measured by the efficiency and durability of the financial system that helps protect the depositors. Tier I Capital and Tier II Capital are measured in this ratio. Tier I Capital can absorb losses without ceasing operations. In contrast, Tier II Capital absorbs losses when a bank's winding-up, which means Tier II Capital serves a lower degree of protection to the depositors (Shingjergji & Hyseni, 2015).

CAR is calculated by dividing a company's Tier I Capital and Tier II Capital by its risk-weighted assets. In accordance with the formula, it would be expressed as:

$$\text{CAR} = \text{Tier One Capital} + \text{Tier Two capital} / \text{Risk Weighted Assets.}$$

For a bank, the minimum CAR under BASEL III is 8%.

**Managerial efficiency:**

**Income to Expense Ratio (IER):** The Income to Expense Ratio indicates the amount of income earned against per currency of bank operating expense. In the banking sector, the income to expense ratio is probably the most popular ratio used to evaluate the management efficiency in generating return by minimizing operating expenses (Abduh et al., 2013)

IER is calculated by dividing a company's total income by its total operating expense. In accordance with the formula, it would be expressed as:

$$\text{IER} = \text{Total Income} / \text{Total Operating Expenses}$$

High IER notifies higher management efficiency in generating profit against the bank's total operating expense.

**Management Ability:**

**Asset Utilization Ratio (AUR):** Asset Utilization Ratios measures the revenue earned by a Bank against every dollar of assets it owns. This ratio indicates the bank's management's efficiency in generating output by utilizing its assets, which significantly impacts shareholders' equity (Ross et al., 2005).

AUR is calculated by dividing a company's total revenue by its total assets. In accordance with the formula, it would be expressed as:

$$\text{AU} = \text{Total revenue} / \text{Total Assets}$$

The higher the ratio means the higher ability to utilize the bank's assets. A lower ratio means banks have less ability to use their assets properly, so some assets should be disposed of.

## Sample Size

This study aims to evaluate the performance of Islamic banks in Bangladesh using ratio analysis. Accordingly, six Islamic banks are included in the analysis: Islami Bank Bangladesh Limited, Al-Arafah Islami Bank Limited, Export-Import Bank of Bangladesh Limited, Social Islamic Bank Limited, and Shahjalal Islami Bank Limited, and First Security Islami Bank Limited. Data has been collected for ten years period from 2010-2019. The data are collected from the annual reports of the respective banks.

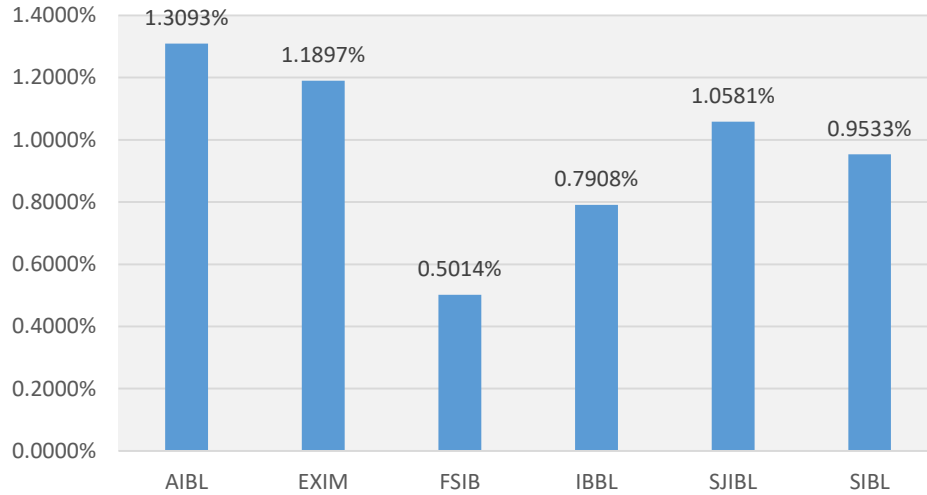
## EMPIRICAL RESULTS AND DISCUSSION

### Profitability Ratios: ROA and ROE

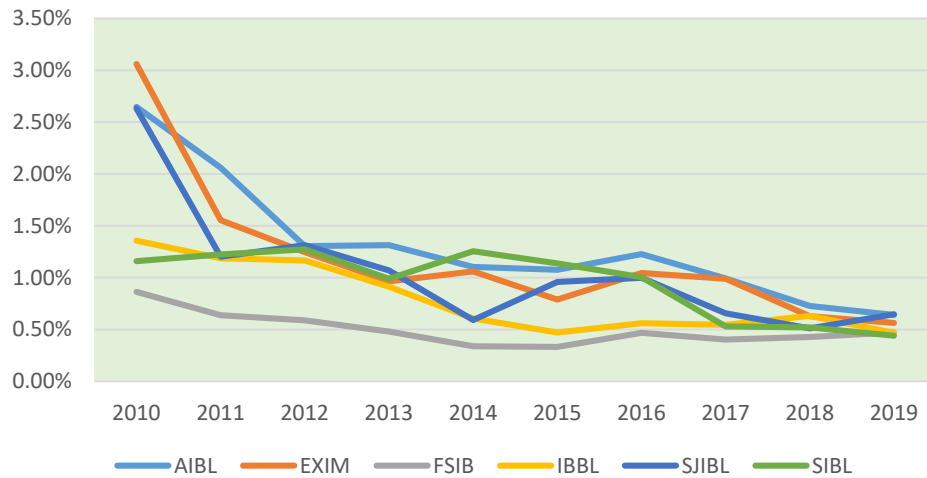
Table 1 shows that the ROA of EXIM bank was greater than the other Islamic Banks in the year 2010, and then it decreased at a higher rate from 3.06% to 0.56% at the end of 2019. In 2011, AIBL had a higher ROA (2.06%), but it decreased gradually from 2012 to 2019. After comparing the overall ROA among these banks, the study found that all banks have fluctuations in ROA (2010-2019). Finally, on average, the ROA is higher in AIBL (1.31%) than in other Islamic banks. This result indicates that AIBL has performed better in terms of managerial efficiency than other Islamic banks in Bangladesh. Simultaneously, the risk level of this profitability measured by standard deviation is relatively small for all banks

**Table 1: Ratio Analysis for ROA**

Bank	Year										Mean	Std. Dev.
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
<b>AIBL</b>	2.65%	2.06%	1.30%	1.31%	1.10%	1.08%	1.23%	0.99%	0.73%	0.64%	1.31%	0.0060932
<b>EXIM</b>	3.06%	1.55%	1.25%	0.96%	1.06%	0.79%	1.05%	0.99%	0.63%	0.56%	1.19%	0.0071686
<b>FSIB</b>	0.86%	0.64%	0.59%	0.48%	0.34%	0.33%	0.47%	0.40%	0.43%	0.47%	0.50%	0.0015903
<b>IBBL</b>	1.36%	1.19%	1.16%	0.91%	0.61%	0.47%	0.56%	0.55%	0.63%	0.47%	0.79%	0.0033516
<b>SJIBL</b>	2.63%	1.20%	1.31%	1.07%	0.59%	0.96%	1.00%	0.66%	0.51%	0.65%	1.06%	0.0061626
<b>SIBL</b>	1.16%	1.22%	1.27%	0.99%	1.25%	1.14%	1.01%	0.53%	0.52%	0.44%	0.95%	0.0032898



**Figure 1: Mean value of ROA of Islamic banks in Bangladesh (2010-2019)**

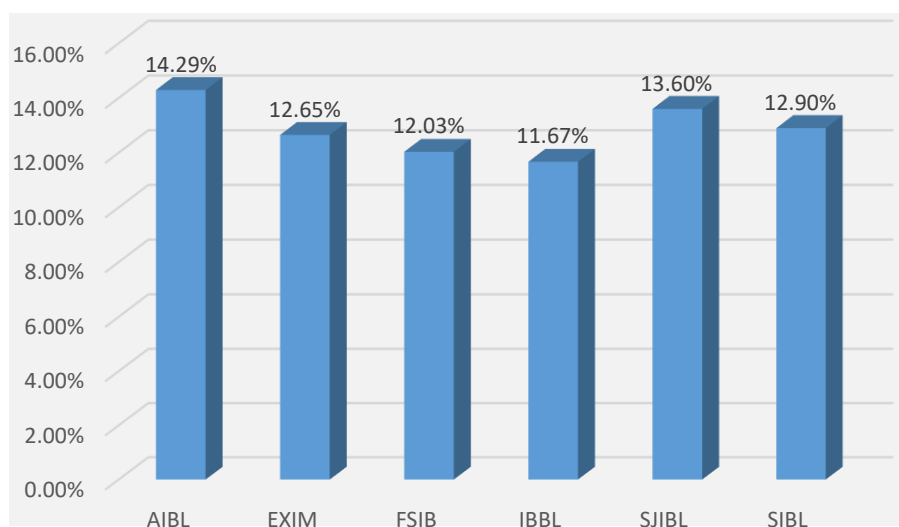


**Figure 2: Fluctuations in ROA of Islamic Banks for (2010-2019)**

Table 2 represents ROE, average, and fluctuations of all the six Islamic Banks during 2010-2019. Here it shows that the ROE of EXIM Bank is lower than the average ROE of other banks. One of the reasons for this lower ROE may be that EXIM Bank is paying a much higher share in profit for its depositors than the available deposit rate compared to the other banks. Here it shows that the average of EXIM Bank is considerably lower than that of other banks. One of the reasons for this lower rate is that EXIM Bank is giving more shares in profits to its depositors than the deposit rate given by any other bank. If we compare all the banks based on the average, AIBL has the highest ratio (14.29%) on the average compared to all banks, which shows that it has good managerial performance. On the other hand, the risk level of this profitability measured by the Standard Deviation is in a standard position for all the banks.

**Table 2: Ratio Analysis for ROE**

Bank	Year										Mean	Std. Dev.
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
<b>AIBL</b>	20.01%	18.34%	13.85%	14.15%	12.80%	12.82%	15.70%	14.07%	10.46%	10.73%	14.29%	0.0303822
<b>EXIM</b>	27.72%	13.94%	14.40%	11.39%	10.73%	8.31%	11.48%	11.93%	8.27%	8.33%	12.65%	0.0573186
<b>FSIB</b>	13.99%	11.76%	14.97%	12.07%	8.32%	8.85%	13.18%	11.81%	11.93%	13.43%	12.03%	0.0210303
<b>IBBL</b>	19.07%	16.75%	14.16%	11.50%	8.51%	7.18%	9.17%	9.78%	11.49%	9.08%	11.67%	0.0385235
<b>SJIBL</b>	30.71%	16.30%	18.10%	11.91%	6.39%	10.79%	12.98%	10.04%	8.40%	10.41%	13.60%	0.069386
<b>SIBL</b>	15.26%	10.97%	14.39%	11.30%	15.88%	15.80%	16.14%	10.33%	10.14%	8.81%	12.90%	0.0284403



**Figure 3: Mean value of ROE of Islamic Banks in Bangladesh (2010-2019)**

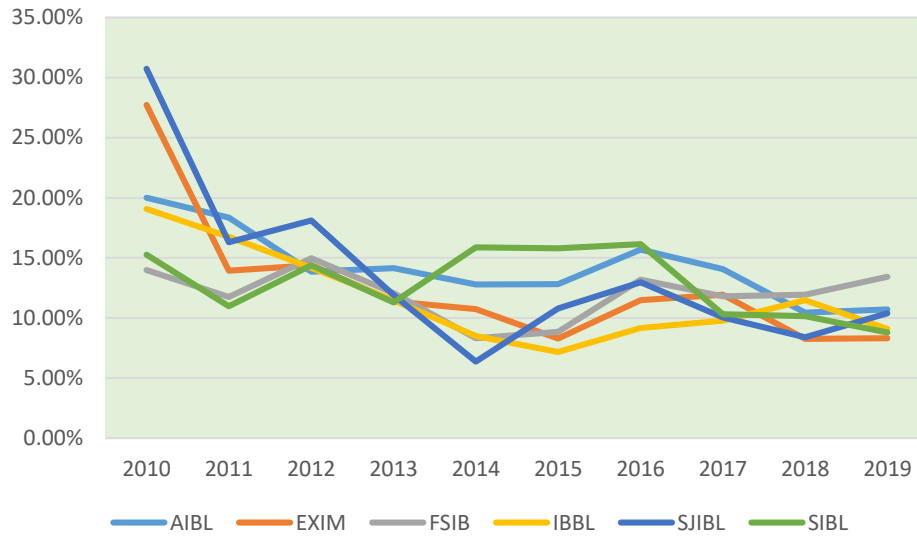


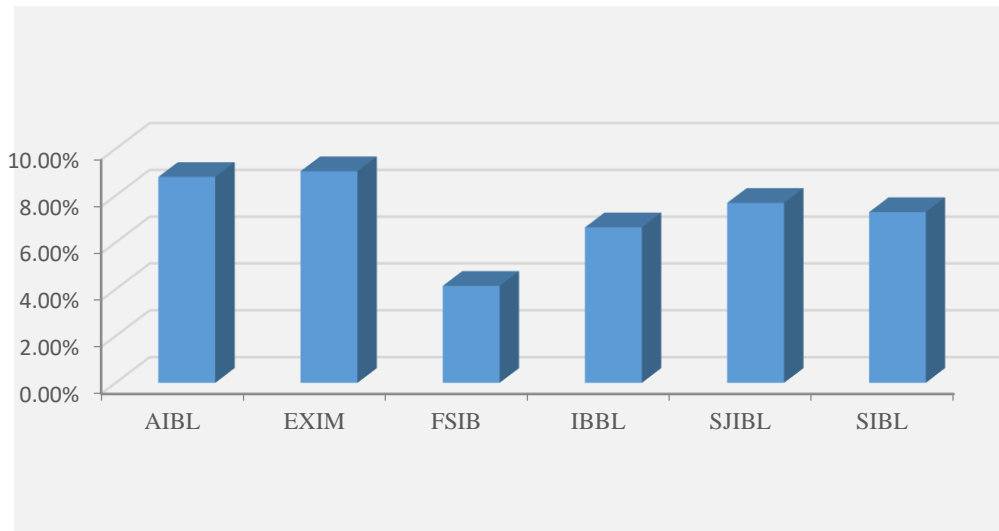
Figure 4: Fluctuations in ROE of Islamic Banks (2010-2019)

**Credit Risk Performance: ETA and CAR**

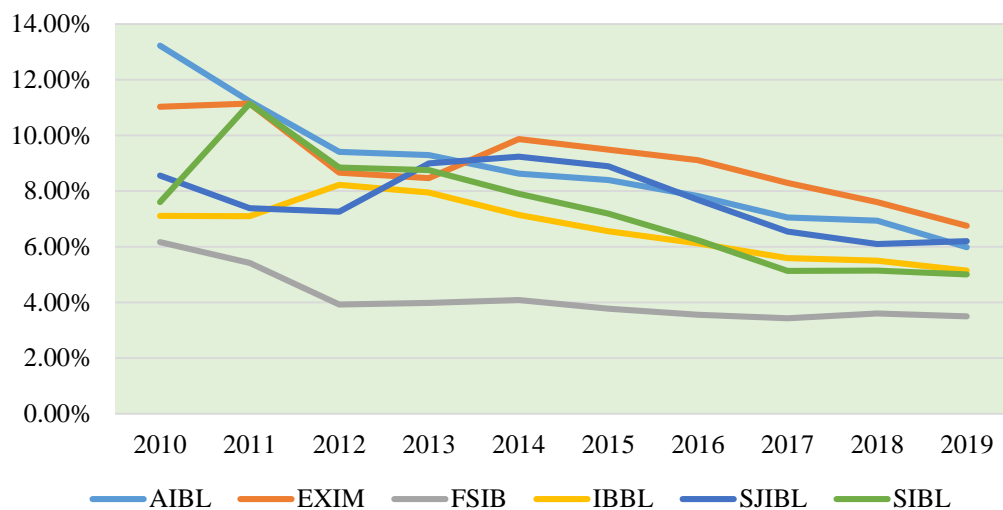
Table 3 shows that the average Equity to Total Asset of EXIM Bank is 9.04%, which is the highest among all. However, all the other banks have achieved a result of less than 10%, which indicates that they rely on a large proportion of liabilities instead of equity to support their assets. The higher ETA for EXIM Bank clarifies that the equity fund of EXIM Bank can better support the total asset than the other banks.

Table 3: Ratio Analysis for ETA

Bank	Year										Mean	Std. Dev.
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
AIBL	13.23%	11.23%	9.41%	9.29%	8.63%	8.40%	7.82%	7.05%	6.94%	5.98%	8.80%	0.0215347
EXIM	11.03%	11.14%	8.66%	8.46%	9.87%	9.49%	9.11%	8.29%	7.61%	6.75%	9.04%	0.0139894
FSIB	6.16%	5.42%	3.93%	3.98%	4.08%	3.77%	3.55%	3.42%	3.60%	3.50%	4.14%	0.0091295
IBBL	7.11%	7.10%	8.22%	7.94%	7.14%	6.55%	6.12%	5.59%	5.50%	5.14%	6.64%	0.0104352
SJIBL	8.56%	7.38%	7.26%	8.99%	9.24%	8.89%	7.69%	6.55%	6.10%	6.20%	7.69%	0.0118455
SIBL	7.61%	11.15%	8.84%	8.75%	7.90%	7.19%	6.23%	5.13%	5.14%	5.01%	7.30%	0.0198775



**Figure 5: Mean value of ETA**



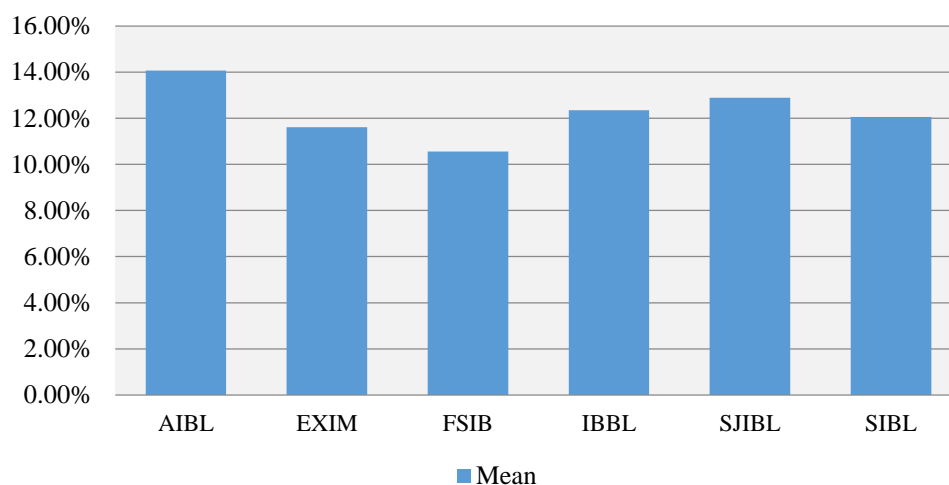
**Figure 6: Fluctuations in ETA of Islamic Banks (2010-2019)**

**Capital Adequacy Ratio (CAR)**

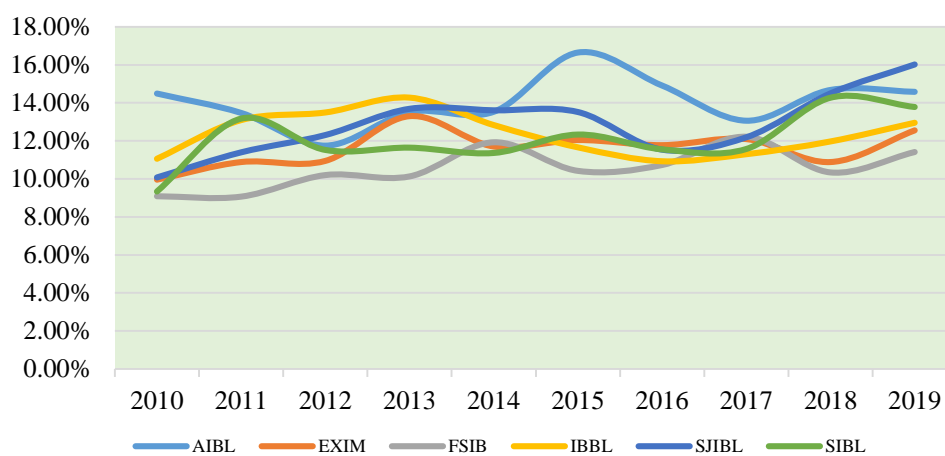
It can be seen from table 4 that AIBL has a higher capital adequacy ratio (14.06%) than other Islamic banks. On the other hand, a higher CAR ratio may also imply that the bank having a large amount of money trapped in its provisions or risk management also implies less money left for financing purposes or business activities. Usually, the 12% CAR ratio is the standard benchmark.

**Table 4: Ratio Analysis for CAR**

Bank	Year										Mean	Std. Dev.
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
<b>AIBL</b>	14.49%	13.47%	11.75%	13.52%	13.53%	16.65%	14.91%	13.06%	14.68%	14.58%	14.06%	0.0131347
<b>EXIM</b>	9.95%	10.88%	10.94%	13.30%	11.70%	12.04%	11.77%	12.09%	10.88%	12.55%	11.61%	0.0096948
<b>FSIB</b>	9.09%	9.07%	10.20%	10.13%	11.92%	10.42%	10.73%	12.21%	10.34%	11.41%	10.55%	0.0105863
<b>IBBL</b>	11.06%	13.09%	13.49%	14.27%	12.83%	11.66%	10.93%	11.30%	11.97%	12.95%	12.36%	0.0113173
<b>SJIBL</b>	10.08%	11.40%	12.31%	13.69%	13.61%	13.52%	11.54%	12.19%	14.50%	16.02%	12.89%	0.017227
<b>SIBL</b>	9.33%	13.17%	11.52%	11.64%	11.36%	12.33%	11.55%	11.57%	14.27%	13.78%	12.05%	0.0141649



**Figure 7: Mean value of CAR of Islamic Banks in Bangladesh (2010-2019)**



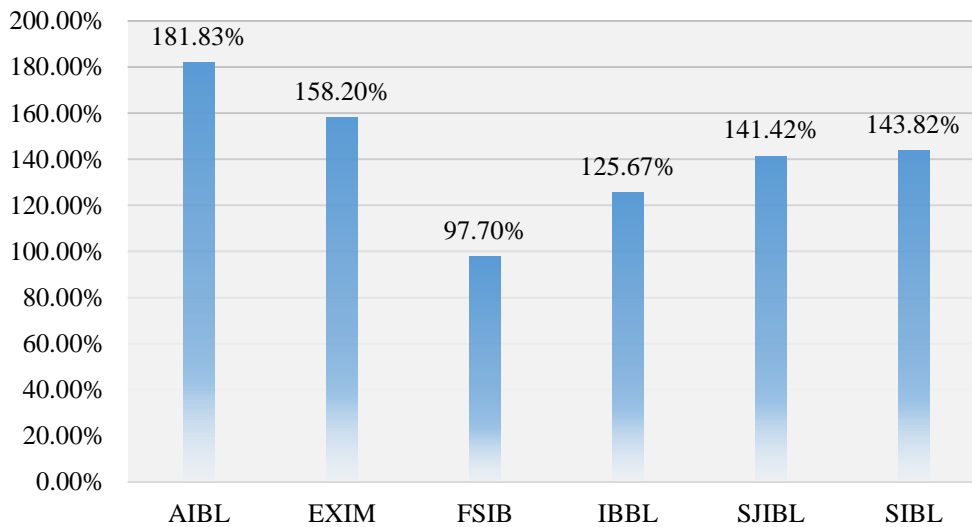
**Figure 8: Fluctuations in CAR of Islamic Banks (2010-2019)**

**Managerial efficiency: IER**

Table 5 shows that in 2010, the IER of EXIM Bank was greater (319.08%) than other Islamic banks. When comparing the IER among all the 6(six) banks, the study found that no bank has consistency in increasing the IER during this period of 2010-2019; there were so many fluctuations. And it decreased at a greater rate in 2017 for FSIB, IBBL, and SJIBL. Finally, on average, the IER of AIBL (181.83%) was higher than other Islamic banks. This higher IER ratio indicates that AIBL has the capability and effectiveness to generate higher total income than its total operating expenses.

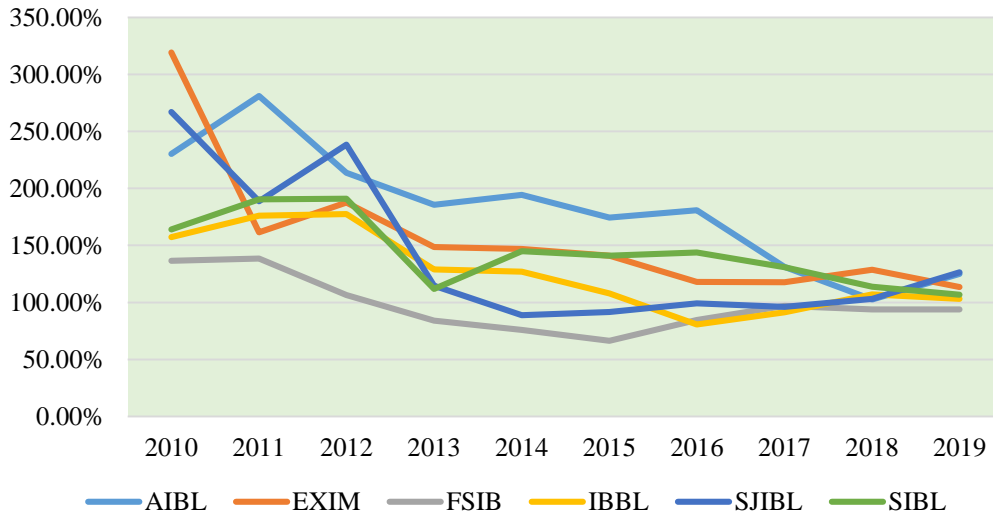
**Table 5: Ratio Analysis for IER**

Bank	Year										Mean	Std. Dev.
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
AIBL	230.31%	281.02%	213.58%	185.54%	194.18%	174.40%	180.86%	131.03%	102.41%	124.98%	181.83%	0.5327094
EXIM	319.08%	161.53%	187.55%	148.67%	146.81%	140.93%	117.87%	117.59%	128.52%	113.51%	158.20%	0.6094214
FSIB	136.52%	138.39%	106.55%	83.96%	76.02%	66.24%	84.56%	97.00%	93.98%	93.73%	97.70%	0.2378531
IBBL	157.27%	175.98%	177.53%	128.85%	126.97%	107.89%	80.69%	91.41%	107.12%	103.00%	125.67%	0.3432116
SJIBL	266.87%	188.64%	238.38%	114.73%	88.91%	91.67%	99.27%	96.18%	103.17%	126.38%	141.42%	0.6568121
SIBL	164.00%	190.27%	191.06%	111.73%	144.96%	141.03%	143.66%	130.88%	113.83%	106.76%	143.82%	0.3032392



**Figure 9: Mean value of IER of Islamic Banks in Bangladesh (2010-2019)**





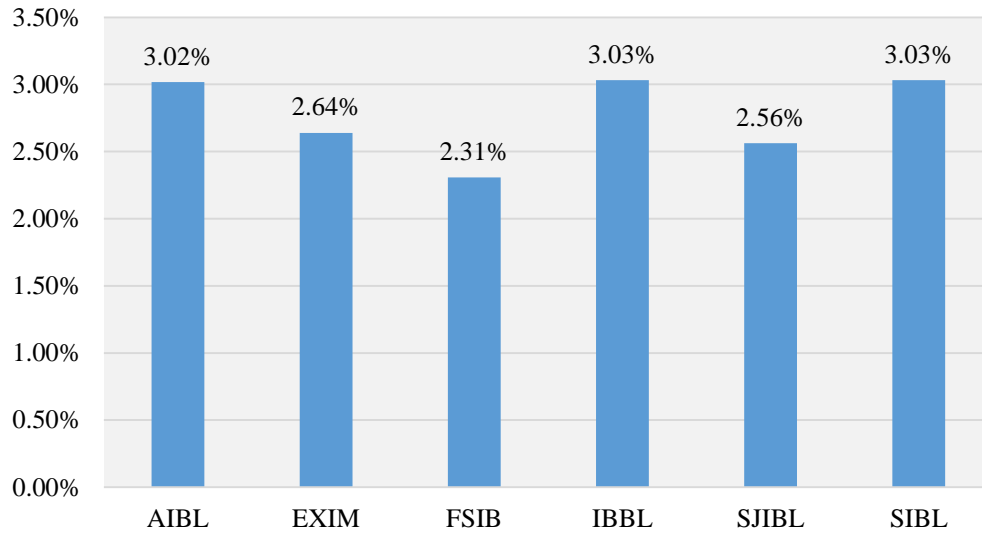
**Figure 10: Fluctuations in IER of Islamic Banks for 10 years period (2010-2019)**

**Management Ability: AU**

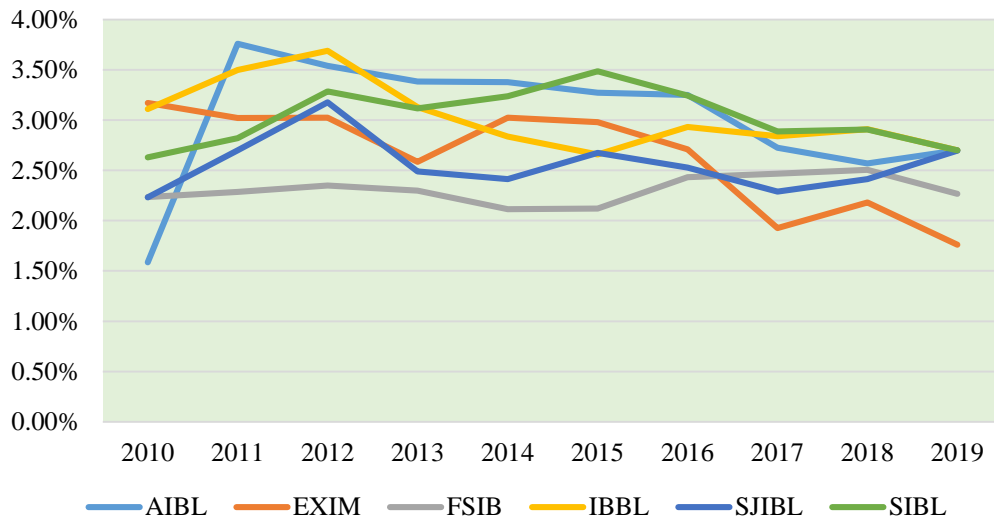
Table 6 shows that, compared to other Islamic banks in the year 2010, EXIM Bank had a higher AU ratio (3.17%). But after an increase for 2 years, its AU started decreasing very sharply. The study found that FSIB and SIBL both had a reliably consistent AU ratio during the tested period. On average, both the AU of IBBL & SIBL, which is 3.06%, is higher than that of other banks. This shows that IBBL & SIBL is using its assets successfully up to its peak capacity in order to generate total revenues.

**Table 6: Ratio Analysis for AU**

Bank	Year										Mean	Std. Dev.
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
<b>AIBL</b>	1.58%	3.76%	3.54%	3.38%	3.38%	3.27%	3.25%	2.73%	2.57%	2.70%	3.02%	0.0063658
<b>EXIM</b>	3.17%	3.02%	3.03%	2.58%	3.02%	2.98%	2.71%	1.93%	2.18%	1.76%	2.64%	0.0051012
<b>FSIB</b>	2.23%	2.28%	2.35%	2.30%	2.12%	2.12%	2.43%	2.47%	2.51%	2.27%	2.31%	0.0013391
<b>IBBL</b>	3.11%	3.50%	3.69%	3.13%	2.84%	2.66%	2.93%	2.84%	2.91%	2.70%	3.03%	0.0033558
<b>SJIBL</b>	2.23%	2.70%	3.18%	2.49%	2.41%	2.67%	2.53%	2.29%	2.41%	2.70%	2.56%	0.0027133
<b>SIBL</b>	2.63%	2.82%	3.29%	3.12%	3.24%	3.49%	3.25%	2.89%	2.91%	2.70%	3.03%	0.0028241



**Figure 11: Mean value of AU of Islamic Banks in Bangladesh (2010-2019)**



**Figure 12: Fluctuations in AU of Islamic Banks (2010-2019)**

Finally, it can be said that considering the profitability ratios, credit risk performance, managerial efficiency and management ability of the selected Islamic Banks, Al-Arafah Islamic Bank performs much better. The higher and comparatively stable ratio indicates that the AIBL has successfully optimized its firm value though controlling all the expenses and utilizing the productivity of employees. Therefore, we can conclude that among the Islamic banks AIBL is significantly able to meet its managerial target.

## **CONCLUSION**

The Islamic banking system has been notified as a popular banking service by several Islamic countries researchers worldwide. But in the case of Bangladesh and a few countries, its Shariah-based implication on PLS framework and policy regulation was highly criticized by previous studies (e.g., Mahdi & Rahaman, 2020; Sarker,1999; Sarker, 2005; Khan, 2010; Sarker et al.,2017).

Accordingly, this study aimed to evaluate the performance of the Islamic banking industry in recent times. Our study concludes that Islamic banking in Bangladesh is highly profitable in terms of management efficiency and profitability ratios. ICB Islamic Bank experienced unexpected negative profitability among the Islamic banks (Yousuf et al. 2014). AIBL followed all the Shariah laws and was one of the most profitable Islamic banks over the study period (Sarker et al., 2017). The performance of IBBL was consistent, but AIBL was performing very well over the study period (Ibrahim et al., 2014). Moreover, several researchers concluded that the future of Islamic banking in Bangladesh is very bright and noteworthy, although the complexity in case of the implication of Shariah Law and supervisory board was highly questionable at the same time.

The present study also concludes that AIBL, EXIM, SIBL, and SJIBL are performing well in terms of management efficiency and basic ratio analysis. We also noticed that all banks are in the declining position in terms of credit risk performance. In management ability, SIBL and IBBL are doing comparatively well over the study years. The investors, stakeholders and the responsible parties should be more concerned while measuring the performance of overall Islamic banking in Bangladesh. However, the study noticed the absence of several performance measures like liquidity ratio, price to earnings ratio, dividend payout ratios, non-performing loans, etc. These are the significant measures while considering the banking industry's performance.

## **RECOMMENDATIONS AND POLICY IMPLICATIONS:**

In line with the findings of Sarker et al. (2017) and Nahar et al. (2017), the present study suggests some policy remarks:

- Islamic banks should provide advisory services in the Islamic shariah based capital market activity to increase earnings, which will reduce unemployment and increase investment opportunities by following the Islamic Shariah. But at present, there is a lack of an effective Shariah-based capital market activity in Bangladesh. Therefore, policymakers should look into this issue in depth.
- The stakeholders should disclose a proper balance sheet and income statement to avoid misrepresentation of the required information followed by Islamic shariah.
- To increase the return of assets, Islamic banks should increase financing in more profitable sectors by creating a standard portfolio.
- Inter Islamic banks network and Islamic banking window operation of several conventional banks should be monitored with strict regulations by the Islamic supervisory authority.

- To utilize management ability, Islamic banks should hire experienced and skilled managers by giving them a standard salary and other facilities to ensure better utilization of assets and help achieve the organization's long-term goal.
- Islamic banks should maintain a proper balance between financing and investment to enhance credit risk performance. To increase the management of credit risk efficiency, Banks should develop an efficient credit management policy and follow guidelines of Bangladesh Bank regarding credit management policy.
- Islamic banks should apply new and innovative Islamic financial schemes and services to attract customers and depositors.

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