Performance Evaluation of Islamic Banks in Bangladesh - A Statistical Analysis

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Abstract

Bangladesh has experienced phenomenal growth in Islamic banking following strong public demand of Bangladeshis for the system. Since its establishment in 1983, Islamic banking industry has recorded vigorous performance and the industry now accounted for more than 20 percent market share of the entire banking industry in Bangladesh. According to a statement of BIBM, Bangladesh ranked 10th in the world in terms of Islamic banking. The principal objective of the study is to critically evaluate the performance of Islamic Banks in Bangladesh through growth, productivity and profitability. The study is the outcome of mainly secondary sources of data. The main findings of the study are i) It is seen that the growth trend of deposits, investment and branches of all sample banks increased during the study period .ii) It is seen that the productivity performance in terms of working fund to total expenses and total income to total expenses have been satisfactory in most of the banks during study period. iii) It is also observed that the profitability performance in terms of total income and working fund have been satisfactory of all the sample banks during the study period.

Key Words: Islamic Banks, Growth, Productivity , Profitability.

1. Introduction:

Banking system plays a very important role in the economy of a nation. The health of the economy is closely related to the soundness of its banking system. In a developing country like Bangladesh the banking system as a whole plays a vital role in the progress of economic development. A bank as a matter of fact is just like a heart of the economic structure and the capital provided by it is like blood in it. As long as blood is in circulation the organs will remain sound and healthy. If the blood is not supplied to any organ then that part would become useless (Chowdhury, 2009).

In recent times banking business had a sharp change in their character and composition due to a number of measures and growing demand of a variety of customer services. The attention of bank management should no longer be concentrated only to the traditional banking business, that is, accepting deposits and making loans, rather to the provisions of a number of ancillary services for reducing there risk and ensuring income to sustain profitability. The public and private sector banks are competing with each other. Their healthy co-coexistence is very much necessary for the growth and development of Bangladesh economy. Now it is essential to analyze the trends of growth, productivity and profitability of some private commercial banks.

Bangladesh Bank (BB) along with the Central Shariah Board and various Islamic Banks, has prepared an integrated guideline for conducting Islamic Banking business in November 2009 mostly on the basis of Banking companies Act 1991, Companies Act 1991, Companies Act 1994 and prudential Regulations of Bangladesh Bank. Bangladesh Bank has recently revised its policy and barred conventional banks from opening Islamic

Banking branches. Although the Islamic Banking industry has been grown at a faster rate than the conventional banks,

Shariah Compliant banks still make up smaller share (approximately one-fifth) of the total banking sector. During the third quarter of 2016, the share of total deposits and total investments of Islamic banks accounted for 21.9% and 17.5% respectively among overall banking sector. Out of all the Islamic banks, Islamic Bank Bangladesh Limited (IBBL) accounted for the biggest share of deposits (38.7%) followed by first security Islami Bank Ltd (36%) and EXIM Bank Ltd (34%). The key profitability indicators Return on Assets (ROA) and Return Equity (ROE), reveal that Islamic Bank's profitability was higher.

Bangladesh is the third largest Muslim country in the world with around 135 million populations of which 90 percent are Muslim. The hope and aspiration of the people to run banking system on the basis of Islamic principle come in to reality after the OIC recommended at its foreign Ministers meeting in 1978 at Senegal to develop a separate banking system of their own After 5 years of that declaration, in 1983, Bangladesh established its first Islamic bank. At present, out of 49 banks in Bangladesh, 8 full fledged Islamic Banks and 19 Islamic Banking branches are operating in the market. Eight Islamic Banks are ,Islamic Bank Bangladesh Limited (IBBL), (1983), ICB Islamic Bank Limited (ICBIBL) (1987), Al-Arafah Islamic Bank Limited (AAIBL), (1995), Social Islamic Bank Limited (SIBL) (1995), Export Import Bank of Bangladesh Limited (EXIM) (1999), First Security Islamic Bank LTD (FSIBL), Shahjalal Islamic Bank Limited (SJIBL), (2001), Union Bank Limited (UBL(, (2013).

2. Objectives of the study:

The main objective of the study is to evaluate the performance of Islamic Banks through growth, productivity and profitability. The specific objectives are:

1. To analyze the growth trends of sample commercial banks.
2. To evaluate the productivity performance of sample Islamic Banks.
3. To examine and analyze the profitability performance of sample Islamic banks.
4. To identify the Problems and challenges for Islamic banks.
5. To suggest measure for improvement of the performance sample Islamic Banks.

3. Methodology:

In Bangladesh, currently eight local Islamic banks are providing their services as 'Pure Islamic Banks' and running their operations under the guidance of Islamic Shariah. Among them five Islamic banks have been selected to measure and compare industry's performance during the period 2006-2016. Selected Islamic Banks are:

Name of Bank	Year of incorporation	Paid up capital (in million)	No. of Branches	No. of Employee
Islami Bank Bangladesh Ltd. (IBBL)	1983	16099.91	294	13574
Social Islami Bank Limited (SIBL)	1995	7031.42	100	1922
Export Import Bank of Bangladesh (EXIM)	1999	12838.65	87	2458
First Security Islamic Bank Limited (FSIBL)	1999	4114.38	137	2673
Shah Jalal Islami Bank Limited	2001	7347	93	2145

Source: Annual Reports (2016) of the Sample banks.

Secondary data required for the study were collected from annual reports of the selected sample banks. The data were collected for the year 2006 to 2016 Bangladesh Banks Annual reports, publications, resume of the activities of financial institutions in Bangladesh published by Ministry of Finance, Statistical year Book, Economic Trend, Economic Review are the important source of secondary data.

Trend Growth Rate (TGR)

A semi- logarithmic trend is appropriate when the series data are considered the ordinary Least square (OlS) method is to fit the semi-logarithmic trend equation. The estimated form of the semi-logarithmic trend equation is,

$$Logy = A+Bx$$

Where, y = Dependent variables i.e, number of branches, Deposits, investments etc.

A = Constant or Intercept of the trend line, B = Estimated trend co-efficient. From the value of the slope (i,e, co-efficient of the trend denoted by 'B') the rate of increase for the trend could be determined. The trend growth rate equation is

$$TGR = \{antilog (B) -1\} \times 100$$

This growth rate is known as a semi- logarithmic least square trend growth rate or simply trend growth rate. It is also known as compound growth rate.

Measuring Productivity of sample banks

Employee Productivity in terms of deposit, loans and advances,

1. Deposit per employee = $\dfrac{Total\ deposits}{Total\ employees}$

2. Loans per employee $= \dfrac{Total\ loans\ and\ advances}{Total\ Employee}$

Branch Productivity:

Branch Productivity $= \dfrac{Total\ Income}{Total\ number\ of\ Branches}$

Total Productivity Measures

The formula of total Productivity measures are as follows:

1. Ratio of working founds (v) to total Expenses, (E) $Q = \dfrac{V}{E}$

2. Ratio of total Income (I) to total Expenses (E) $= \dfrac{I}{E}$

Partial Productivity Measure

The formula of partial productivity measures are as follow.

1. Ratio of working funds (V) to Manpower Expenses (M) $Q = \dfrac{V}{M}$

2. Ratio of total Income (I) to Manpower Expenses (M) $Q = \dfrac{I}{M}$

Measuring Profitability of sample banks

1. Ratio of Net profit to employee:

Net profit per Employee $= \dfrac{Total\ Net\ profit}{Total\ Employee}$

2. Net profit per Branch $= \dfrac{Total\ Net\ Profit}{Total\ Branch}$

3. Net profit as a per cent age of total Income: $\dfrac{Netprofit(P)}{TotalIncome} \times 100$

4. Net profit as a percentage of working funds: $\dfrac{Netprofit}{Workingfunds} \times 100$

4. Literature Review:

Hasan,(1999), explained the basic elements of interest-free banking in details and its practical experience in a developing Muslim majority country, Bangladesh. The paper analyzed the performance of Islamic Bank Bangladesh Limited (IBBL), based on growths in deposits, investments, profit, international trade, remittances and expansion of branch net work during the period of (1983-94). The paper also made comparison of IBBL's performances with those of other private banks during the same period.

Sarkar (1999) evaluated performances of Islamic banks in Bangladesh during the period of 1988-97. The paper used five efficiency test criteria (mainly financial ratios) to measure the performance of Islamic Banks. The paper reported that only Islamic Bank Bangladesh Limited maintained positive growth trend in deposits, advances and profits.

Alam (2000) attempted to analyze growth trends of deposits and investments of the Islamic bank Bangladesh Limited during 1983-94. The paper found that the IBBL mobilized deposits mainly under Al-wadia and Mudaraba modes. The paper revealed that the bank made investments mainly under Murabaha, Musharaka , Bai. Muajjal , Hire Purchase, and Quard E Hasana mode of investments. Among different mode of operations, the bank concentrates on the Murabaha, Bai-Muajjal and other related mode of investments. Musharaka and Quard E Hasana modes recorded below 3% of the total investment and no investment has been made under Mudaraba.

Ahmed and Hasan (2007) examined current legal and regulatory issues of Islamic banking in Bangladesh. The paper pointed out that there is a lack of a well –defined regulatory and supervisory framework for Islamic banks for their effective functioning in line with the tenet of Shariah.

Ibrahim (2014) evaluated the performance of six Islamic Banks listed at both Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). data have been collected from the annual reports of the selected banks and variables chosen for performance evaluation included deposit, investment , foreign remittance , earning per share(EPS) , dividend declaration, dividend payout ratio, price earnings ratio, and Net asset value (NAV). Analyzing these variables the study concluded that Islamic banks have performed well.

Sadekin (2014) analyzed the Performance development and growth of selected five Islamic Banks in Bangladesh. Seven variables namely number of branches, number of employees, total deposits, total investment, total remittance, net income and earnings per share during the span of 2008 to 2012 has been used to derive results of the paper. Eight trend equations have been tested for different activities of the Islamic banks and results found that the trend value of branches , employees, deposits and net income are positive in case of all the selected banks.

Mahmud and Islam (2010), in their paper focuses on the Comprehensive comparison about the performance of conventional and Islamic banking system operation in Bangladesh during 2000-2005. Some commonly used

measures such as general business measures, profitability ratios , management soundness and social profitability have been applied to derive the objectives of the paper. The paper found that though both conventional and Islamic banking have contributed a lot to economy of Bangladesh, there are two major functional differences. Firstly the conventional banks follow borrowing and lending mechanism while the Islamic banks abide by trading and investment mechanisms. Secondly, the conventional banks provide and receive interest for deposit and advance but Islamic Banks neither accepts nor pays interest in any of its activities and run business based on profit as a pricing tool instead of interest. The study reported better performance of Islamic banks as compared to that of Commercial banks,

5.   **Islamic banking Activities compared with all banks in Bangladesh (April –June 2017)**
      (In Crore Taka)

Items	All Banks	Islamic banks	Share of Islamic Banks Among All Banks
Total Deposits	877882.80	199424.90	22.72
Total Credit	772594.90	185244.93	23.98
Remittances	28714.25	8866.82	30.88
Total Excess Liquidity	110800.00	7886.01	7.12
Total Number of Branches	9720	1112	11.44
Agricultural Credit	20998.70	833.59	3.97

Source: Statistics Department, Bangladesh Bank

6.   **Growth of deposits of sample banks**

 Deposits are the heart of the bank. Because all the activities of the banks are dependent on deposits. The existence of a commercial bank is totally impossible in the absence of deposits. Total deposits of the eight full-fledged Islamic Banks accounted for 95% of the deposits of the Islamic Banking Industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 18976.37 crore as on end June 2017. Among Islamic banks, Islami bank Bangladesh Limited accounted for the biggest share of deposits (35.22%) followed by FSIBL 13.82%, EXIM 12.58%, SIBL 9.69%, and SJIBL 6.71% (Annual Report, 2017, Bangladesh Bank). Against this backdrop the following table shows the trend growth rate of deposits of sample banks:

Table-2 Growth trends of deposits of the sample bank.

Estimated statistics of the Equation, $\text{Log } Y = A + BX$

Banks	A	B	T	R^2	TGR	P-value	Result
IBBL	2.917	0.071	14.306	.891	17.76	.000	Significant
SIBL	2.21	.094	6.88	.888	18.26	.000	Significant
EXIM	2.56	.087	7.71	.892	17.38	.000	Significant
FSIBL	2.98	.083	8.90	.886	16.54	.000	Significant
SJIBL	2.76	.084	7.56	.855	15.64	.000	Significant

Source: Annual Reports of the sample banks for the period 2006-2016, and calculations have been made by the Researchers.

Table-2 reveals that trend line equation i,e, the sign of the co-efficient of time denoted by 'B' is positive for all the banks and the slope was statistically significant at 5 percent level of significance. The R^2 value of .891 for IBBL revealed that the independent variable explained for about 89 percentages of the variation in the dependent variable. The trend growth rate of sample banks deposits is found to be 17.76 percent for IBBL Bank, 18.26 percent for SIBL, 17.38 percent for EXIM, 16.54 percent for FSIBL and 15.64 percent for SJIBL. So SIBL

ranked 1st, IBBL Bank ranked 2nd and EXIM bank ranked 3rd in case of deposits growth trend. Therefore, it can be concluded that the amount of deposits of the sample banks during the above time period has increased.

7. Growth of Investments of sample banks

Growth in investment is one of the important factors for the Islamic banks that actually generate profit of a bank. After collecting deposits which is a from various sector and turning them in to capital, banks provide these capital as investments to the debtors. Total amount of investments in Islamic banking industry reached at Tk.185244.93 crores at the end of the quarter of April-June 2017. As in the case of Investments, Islamic bank Bangladesh Limited attained the highest share of investments which was 35.74% followed by FSIBL 12.25%, EXIM bank 12.25%,SIBL 10.08% and SJIBL 7.57% (Annual Report,2017, Bangladesh Bank) Against this back drop the following table shows the growth trend of investment of the sample banks.

Table-3 Estimated semi- logarithmic trend line of Investments of sample banks for (2006-2016)

	A	B	T	R^2	TGR	P-value	Result
IBBL	2.779	.071	14.222	.890	17.76	0.000	Significant
SIBL	2.123	.08	6.604	.801	16.76	0.000	Significant
EXIM	2.566	.085	15.23	.885	18.26	0.000	Significant
FSIBL	2.54	.081	8.55	.843	17.15	0.000	Significant
SJIBL	2.98	.083	7.65	.811	16.98	0.000	Significant

Source: Annual Report of sample banks during the period (2006-2016) and calculations have been made by the researchers.

Table-3 shows that the trend line equation has slope (i.,e, the sign of the co-efficient of time denoted by 'B' is positive) and the slope was found statistically significance at five percent level of significance. The R^2 value of IBBL revealed that the independent variable explained for about 89 percentages of the variation in the dependent variable. The trend growth rate of Investment were 17.76 percent for IBBL, 16.76 percent for SIBL, 18.26 percent for EXIM , 17.15 for FSIBL and 16.95 percent for SJIBL. Therefore, it can be concluded that amount of investments of the sample banks during the above time period has increased.

8. Growth trend of Branches of sample Banks

It is very important for a private bank to expand its branches. Because it wants to reach to the maximum number of customer. Bank branches are the only means through which banks can provide its services to the common people. The number of branches of Islamic banking sector including Islamic banking sector including Islamic branches/windows of conventional commercial banks stood at 1112 at the end of quarter 2017 (Annual report, 2017, Bangladesh Bank) Against this backdrop the following table shows the growth trend of branches of sample banks.

Table-4 Estimated semi- logarithmic trend line of sample Bank Branches for the period (2006-2016)

	A	B	T	R^2	TGR	P-value	Result
IBBL	.982	.041	7.88	.713	9.90	.000	Significant
SIBL	.891	.052	8.392	.8960	10.10	.000	Significant
EXIM	.829	.062	7.98	.856	9.20	.000	Significant
FSIBL	.845	.073	8.43	.823	9.15	.000	Significant
SJIBL	.866	.064	8.31	.899	10.12	.000	Significant

Source: Annual Repot of sample banks for the period 2006-2016 and calculations have been made by the Researcher.

Table-4 depicts that the trend line equation has positive slope (i.e, the sign of the co-efficient of time denoted by 'B' is positive) for all the sample banks and the slope was found statistically significant at five percent level of significance. The R^2 value of .899 for SJIBL revealed that the independent variable explained for about 89.9 percentages of the variation in the dependent variable. The trend growth rate of branches is found to be 19.90 percent for IBBL, 10.10 percent for SIBL and 9.20 percent for EXIM, 9.15 percent for FSIBL and 10.12percent for SJIBL. So IBBL occupied the 1st position in branch growth position. Therefore, it may be concluded that the growth of sample banks branches has an increasing trend during the period under the study.

9. Evaluation of productivity performance of sample banks

Growth of sample Banks productivity by level- Total Approach.

Table-5 Ratio of working funds (V) to total expenses (E)

	IBBL	SIBL	EXIM	FSIBL	SJIBL
2006	15.15	15.68	16.18	15.68	15.18
2007	14.58	15.23	16.78	1.23	15.78
2008	14.44	13.38	17.17	13.38	16.17
2009	11.68	12.68	14.28	12.68	15.28
2010	12.31	12.63	14.71	12.63	15.71
2011	13.81	11.21	15.31	11.21	15.38
2012	10.20	10.23	12.32	10.23	13.32
2013	12.31	10.68	11.21	10.68	10.21
2014	11.70	10.78	13.21	10.78	12.21
2015	11.68	12.48	13.89	12.48	14.99
2016	12.30	13.60	14.31	13.60	14.41
Average	12.74	11.44	14.48	11.44	15.28
S.D	6.55	7.18	5.36	7.18	5.36
C.V	51.41	62.76	37.01	62.76	37.01

Source: Annual Reports of different years of sample banks and calculations have been made by the researchers.

Table-5 portrays that the average working funds to total expenses were 12.74 for IBBL, 11.41 for SIBL and 14.48 forEXIM, 11.44 for FSIBL and 15.28 for SJIBL. For all the banks, the ratio shows a declining and also fluctuating trend. The highest position is occupied by SJIBL, followed by IBBL and EXIM respectively. The co-efficient of variation indicates that the total productivity of SJIBL was more stable than other banks.

Ratio of Total Income to total Expenses: It is another ratio for measuring the total productivity

Table-6 Ratio of total income (I) to total Expenses (E).

	IBBL	SIBL	EXIM	FSIBL	SJIBL
2006	1.97	1.91	1.71	1.30	1.60
2007	1.78	1.59	1.81	1.26	1.51
2008	1.90	1.33	1.75	2.38	1.36
2009	1.45	1.34	1.68	1.06	1.08
2010	1.67	1.21	1.70	1.83	1.73
2011	1.60	1.21	1.65	1.69	1.88
2012	1.64	1.24	1.88	1.79	1.89
2013	1.60	1.24	1.80	1.84	1.76
2014	1.71	1.30	1.70	1.85	1.65
2015	1.50	1.35	1.80	1.88	1.72
2016	1.65	1.40	1.82	1.89	1.81
Average	1.68	1.37	1.58	1.54	1.47
S.D	15	14.12	14.31	13.16	14.18
C.V	12.39	11.38	9.06	8.54	9.64

Source: Annual Reports of different years of sample banks and calculations have been made by the researchers.

Table-6 shows that the average ratio of total income to total expenses was 1.68 for IBBL, 1.37 for SIBL and 1.58 for EXIM, 1.54 for FSIBL and 1.47 for SIBL during the study period. The highest position occupied the IBBL followed by EXIM and FSIBL respectively. During the study period the ratio shows a fluctuating trend of all the banks. The co-efficient of variation indicates that the productivity level of FSIBL was more consistent during the study period.

10. Trend Equation of total productivity levels

To measure the growth trends of total productivity levels in terms of the selected ratios of (V to E and ratio of I to E) of sample banks semi-logarithmic trend lines are estimated for the period 2006 to 2016. The semi-logarithmic trend equations showing the relationship between measures of productivity (y) as dependent variable and time (x) as independent variable has been fitted by the least square method. The estimated semi-logarithmic trend equations for the growth of productivity levels are shown below:

Table-7 Estimated semi-logarithmic trend lines of total productivity levels of sample bank

Bank Types	Productivity Measures	A	B	T	R^2	TGR	P-value	significant
IBBL	V to E	1.10	-.001	-.200	.002	-.23	.843	N
	I to E	0.041	.002	1.848	.120	.46	.076	N
SIBL	V to E	1.32	-.03	-.2100	.004	-.18	-.18	N
	I to E	.054	.004	1.874	.140	.57	.57	N
EXIM	V to E	1.21	-.002	-.2300	.0056	-.13	-.13	N
	I to E	.057	-.0041	1.987	.150	.48	.066	N
FSIBL	V to E	1.11	-.001	-.10	.003	-.21	.673	N
	I to E	.052	.02	1.21	.130	.57	.081	N
SJIBL	V to E	1.32	-.003	-.100	.003	-.26	.783	N
	I to E	.061	-.001	1.76	.110	.38	-.030	N

Source: Annual Report of the sample Banks and calculations have been made by the Researcher.

Table-7 reveals that the trend line equation of the ratio V to E has negative slope i,e the sign of the co-efficient of time denoted by 'B' is negative) for all the sample banks and the slope was found insignificant. It therefore, suggests that the total productivity levels of sample banks decreased during the period. However, trend line equation of the ratio of I to E has positive slope (.i.e the sign of the co-efficient of time denoted by 'B' is positive) and the slope was found statistically insignificant. It is also observed that the total productivity levels measured by V to E of IBBL, SIBL, , EXIM, FSIBL and SIBL decreased with the TGR of -.23 percent, -.18 percent and - .13 percent, 21 percent and .26 percent respectively where as TGR of the total productivity levels measured by the ratio of I to E of IBBL, SIBL, EXIM, FSIBL and SJIBL increased with the TGR of .46 percent, .57 percent and .48 percent , .57 percent and .38 percent, respectively. The above analysis indicates that the banks have decreasing trend of working fund ability (ratio of V to E) and increasing trend of total income producing ability (ratio of I to E). It can be concluded that the banks have marginal productivity position.

11. Evaluation of Profitability Performance of sample banks

Profitability is the most commonly used criteria for determining the efficiency of banks. Enhanced profitability is generally considered to be the pre-requisite for vigorous expansion of operation on a long term basis. Profitability may be measured by using the concept of a) total income b) working fund and c) deposit.

Trend Equation of profitability levels: To measure the growth trends of the profitability levels in terms of the selected ratios (ratio of P to I and ratio of P to V of sample banks, semi-logarithmic trend lines are estimated for

the period 2006 to 2016.The semi-logarithmic trend equations showing the relationship between measures of profitability (Y) as dependent variable and time (X) independent variable has been fitted by the least square method and the significance of the co-efficient of time has been tested by the t- test technique. The estimated semi-logarithmic trend equations for the growth of profitability levels of sample banks are shown in table-9

Table-9 Estimated semi- logarithmic trend lines of profitability of sample banks (2006 to 2016)

Bank Types	Productivity Measures	A	B	T	R^2	TGR	P-value	Result
IBBL	P/I	.609	.017	3.82	.368	3.99	.001	significant
	P/V	-.465	.020	3.54	.334	4.71	.002	significant
SIBL	P/I	.701	.012	3.56	.412	3.82	.001	significant
	P/V	-.217	.030	3.65	.421	4.31	.001	significant
EXIM	P/I	.654	.018	3.72	.399	3.64	.001	significant
	P/V	-.316	.021	3.62	.337	4.51	.002	significant
FSIBL	P/I	.654	.018	3.72	.399	3.74	.001	significant
	P/V	-.316	.021	3.62	.337	3.51	.002	significant
SJIBL	P/I	.654	.018	3.72	.399	3.94	.001	significant
	P/V	-.316	.021	3.62	.337	4.13	.002	significant

Source: Annual Reports of the sample banks and calculations have been made by the Researcher.

Table-9 shows that the profitability levels measured by the ratio of P to I of IBBL, EXIM, SIBL, FSIBL, SJIBL increased with the growth rate 3.99 percent, 3.82 percent, 3.64 percent, 3.74 percent and 3.94 percent respectively. Similarly the ratio of P to V of IBBL, EXIM, SIBL, FSIBL, SJIBL increased with the growth rate of 4.71 percent, 4.31 percent and 4.51 percent, 3.51 percent and 4.13 percent respectively.

12. Problems and Challenges for Islamic Banks

Islamic banking is still highly nascent when compared with conventional banking. It has been facing a range of problems and challenges:

- Absence of an organized Islamic inter bank money market.
- Absence of full fledged legal framework for Islamic banking.
- Shortage of trained and efficient manpower committed to Islamic banking.
- Lack of co-ordination and co-operation among the Islamic banks.
- Scarcity of Islamic Money market Instruments.

13. Policy Recommendations

In the light of the findings of the study, the following policy recommendation is made to improve the performance of the Islamic banks of Bangladesh.

a. Development of inter-bank Islamic Money Market

b. . Implementation of Central Shariah Supervisory Board

c. Implementing Islamic Banking Act.

d. Establishment of Islamic Insurance Company

e. Development of New Financial products in line with Islamic Shariah.

f. Productivity of the commercial banks may be raised by practicing better portfolio management, improving recycling of funds and developing other income from business activities of the banks.

g. Profitability is a prime question of survival of any organization. But non performing loans adversely affect profitability performance of the banks. Through selection of viable loan proposals, judging the

entrepreneurs and the quality of the clients and by ensuring proper supervision and monitoring of the bank financed projects, NPL can be minimized and ultimately the burden of the profitability can be reduced.

h. Each bank should be equipped with a computerized data bank and an effective research cell. So that individual bank can conduct research on regular basis with a view to explore their opportunities and threats.

i. Periodical monitoring of the portfolio performance should be ensured by the bank management. Because it can provide necessary feedbacks and trigger the process of corrective actions to improve the efficiency and health of the sample banks.

14. Conclusion

The study reveals that growth trends of deposits, investment and branches of all sample banks have increased during the study period. In case of deposit growth trend IBBL occupied the first position followed by FSIBL, EXIM bank and SIBL. In case of investment and branches growth trend IBBL ranked first followed by FSIBL and EXIM. The productivity performance of all the sample banks shows a marginal satisfactory level. The study also points out the problems and challenges faced by the Islamic banks. Islamic banks may explore and innovate new Sharia'h based financial instruments for better liquidity management. As Sharia'h is the backbone of the Islamic banking industry, a comprehensive Islamic legal infrastructure with clear ground and commitment is necessary to help expedite Islamic Financial industry to spur as it intends for ensuring human welfare.

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