Relationship between Profitability and Non-Performing Loan and A Comparative Financial Performance Analysis of Shari'ah Based Banks of Bangladesh

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Abstract

In Bangladesh's banking sector is considered as the nerve system of economic activities nowadays. Banks' performances are considered as the indicator of a country's economic forthcoming. Banks are considered as an influential factor in reducing poverty and unemployment problem because of their capacity to have a higher investment. But this promising sector is facing the challenge of raising the level of nonperforming loans in recent times. The basic objective of the study is to analyze and measure the impact of NPLs on the profitability of shari'a based banks of Bangladesh for the period of the last five (2014-2018) years. For this, it has worked with a sample of five selected Islami banks. Through excel, regression and ratio analysis was used to find the bank's comparative financial performance and identify the variable that affects the profitability of shari'ah based banks of Bangladesh. The findings of this paper recommend that if the authority of the banks becomes more careful about these issues then the performance of the banking sector will be better than previous and it could have an even more significant contribution to the country's economy.

Keywords: Financial Performance, Nonperforming loans, Profitability, Shari'ah based banks, Bangladesh.

1. Introduction

In Bangladesh, the banking sector is the most dominating sector, especially in the financial sector. The banking industry is comprised of two systems such as traditional banking and Islamic commercial banking. It has been gaining more popularity with significance after the recession in the year 2007-2009 not only in Bangladesh but also in the world. Islami Bank Bangladesh Ltd. (IBBL) was the first bank in Bangladesh that was established to provide the Islami Banking service. In Bangladesh, the Islamic banking sector plays a vital role in for economic development by fund channeling and through credit facilities to individuals and business organizations.

2. Review of Literature

A non-performing loan is a loan when the borrower is unlikely to pay the credit obligations to the banking group without any remedy by the bank to actions such as recognizing the security. It is also called "bad debt". For a bank having so many bad loans its balance sheet will suffer for profitability due to lacking earning enough money from its credit operation. Besides that, it will have to put money aside for its safety.

As nowadays Non-performing loans have become a concerning issue for commercial banks for that already so much researches have been conducted in this area. Batra (2003) has conducted a research where they came with an outcome in their study that in banks, nonperforming loan creates a negative impact on the psychology of bankers for channeling the funds from deposit to credit delivery.

Another study was done by Michael et al. (2006) and the study says that NPL effects negatively on the bank's return, liquidity position, and solvency. Reducing operational efficiency has considered a reason for that. For these banks should consider NPL with higher importance just because of its survival issues.

Panta (2007) emphasized that, after the initiation of banking sector reforms in 1992, most of the banks are taking initiatives to maintain the NPL level and try to improve their profitability position. Banks also consider the guidelines of RBI related to income recognition, asset classification and its norms related to various provisions. Panta (2007) pointed out that, relationship exists between NPA and bank failure all over the world.

Comprehensive research on the comparative study between SBI and Associates, Old Private Banks and New Private Banks and Nationalized Banks of the benchmark category has conducted Patidar & Kataria (2012). They found a substantial impact of NPL in the lending sector. In their study, they used regression and ratio analysis. In the same year, Chatterjee et al. (2012) studied the relevant area and the result is NPLs are adversely related to capital sufficiency, channeling the fund and

credibility of the bank in the whole economy. Their study also exposes to the banking sector to protect themselves by becoming accustomed to the changing environment.

Ganesan & Santhanakrishnan (2013) showed in their research, managing the NPL the banks efficiently will ensure to increase the profitability of a bank. In the same year according to the study of Sameer & Kamra (2013) both the banks and financial institutions are suffered emotionally and financially by the prevalence of NPL. They suggested identifying the defaulters to reminisce the funds for the bank's development.

According to Parmar (2014) study, proper management of NPL is the most significant task for banks. NPL distress both the financial position and performance not only of the banks but also of the financial institutions in various dimensions. In the same year another study conducted by Arora & Ostwal (2014) titled, "The classification and comparison of loan assets of public and private sector banks"; Findings of that study said that, compared to the private sector, the public sector banks have more NPL.

In his study Tandon et al. (2017) focuses on banks" specific, macroeconomic determinants of the non-performing loans and their impact on banking profitability. In their sample, they choose 35 banks both from the public and private sectors. The duration of their study was from 2007 -2016. To get a sound outcome a multivariate analysis was used. The outcome said that PSU banks – To increase the profitability more attention is required for NPL management.

3. Objectives of the Research
This paper aims to analyze the relationship between profitability and nonperforming loan and analyze the comparative financial performance of Shari'ah Based Banks of Bangladesh. This paper mainly focuses on,

- To examine the relationship between profitability and nonperforming loan of Shari'ah based banks of Bangladesh based on the performance 2014-2018.
- It summarizes the statistical results showing how much impact the independent variables have over the dependent variable bank performance (ROE).

4. Research Methodology
This study has been carried out to evaluate the performance of selected Islamic Banks in Bangladesh. To get a sound output several statistical analyses such as hypothesis, regression analysis, and ratio analysis are used to show the relationship between Profitability and Non-performing Loan of these selected banks. Ratios that will be used in this study are Return on Equity, Return on Asset, Net Interest Margin, Net Profit Margin, Net Operating Margin, Earnings Per Share, Total Investment (loan) to Total deposit, Total Investment (loan) to Total asset, Provision for Investment (loan) to Total loan, Price Earnings Ratio, Non-performing loan Ratio.

4.1 Test of Hypothesis
Step 1: H_0=There is no significant relationship.
   H_1=There is a significant relationship.
Step 2: α=0.05
Step 3: F-test statistic will be used
Step 4: P<α, Ho is rejected
   P>α, Ho is not rejected
Step 5: Decision
Step 6: comment
Multiple R: How strong the relationship
R Square: Coefficient of determination

4.2 Regression Equation: $\hat{Y}$=a+bx
4.3 Source of Data
This study is mostly based on secondary data. Most of the information is collected from Annual reports of sample Islamic banks, websites of those banks. Besides that, different published articles, books, newspaper, and websites are also reviewed

The following five Islamic banks are selected for the study. The banks are Islami Bank Bangladesh Limited, Social Islami Bank Limited, Shahjalal Islami Bank Limited, First Security Islami Bank Limited, and EXIM Bank Limited. This report measures the performance based on financial statements from 2014 to 2018 of these five Islamic banks. MS Excel had been used for calculations, tables, graphical presentations; and hypothesis testing and regression analysis.

5. NPL in Shari'ah Based Banks in Bangladesh
Nowadays in Bangladesh, there are a significant number of Islamic banks that cover almost 20% of the total banking market share. According to the financial stability report of 2014 In Bangladesh performance of Islamic banks are better than the

traditional banks. In that year Islamic banks achieved higher growth inter of assets deposits and for the shareholder's equity. On that year the aggregate nonperforming ratio (4.8%) was lower than the banking industry average. Classified investment to total investment ratio in Islamic banks was 4.2 percent whereas for the overall banking industry it was 8.9 percent in 2013.

To make profit Islamic bank does not operate on the interest-based system rather tan they invest the fund on several profit and losses sharing financing. For this, the fund comes from the bank's equity and customer's deposit on different accounts. Here the current and savings accounts are guaranteed but the capital is not guaranteed for investment. The investment account holders are entitled to share the bank's net profit or loss on a pre-agreed on the percentage basis. The investment account holder share loss in their investments when there is a loss from the activities of financing. As deposits are guaranteed so all the account holders except investment account holders, the loss streams to them first. The loss will flow to the rest of the depositors only when the loss is significant. In this way, Islamic banks pass the negative shocks of their assets to the investment depositors.

As Islami banks don't charge interest so they claim other charges such as cost-plus, Ijarah (leasing), Mudarabah, Musharakah that are reliable with Islamic philosophies. These are the mechanism to protect the loan from moral hazard. At the same time bank also monitor the use of loans of their borrowers by their loan review group so that the chance of making bad debt reduces.

5.1 Causes and Effects of NPL

Moral hazard is nothing new in the field of credit investment. It happens mostly for adverse loan selection. Researchers has identified some other reasons for that such as Improper monitoring, Lack of attention to the borrowers, enlarging the loan size without measuring the risk properly, sanctioning the loan by corruption, inefficient performances of loan review group, borrowers unwillingness to repay the money on time, lack of compelling right action against the bad debt. All these issues are mostly responsible to increase the number of nonperforming loans for a bank.

The nonperforming loan has a negative impact not only on the bank's profitability but also on the whole economy of a country. So, for a bank, it is very important to come up with solutions to reduce NPL. Apart from the profitability NPL effects on some other areas on banking sectors such as reducing the efficiency of banking sectors, hampering the performing loan, stopping the money cycling, reducing the interest-earning, increasing the interest rates for other loans. Overall it affects the compatibility of banking sectors.

6. Financial Ratio Analysis

To get a sound output for comparing the financial performance among the Islamic Shari'ah based banks the following ratios of five Islamic banks of Bangladesh has chosen. The performances are analyzed from 2014 to 2018. At the same time, it also uses an inter-bank analysis. The selected banks are:-

- Islami Bank Bangladesh Limited (IBBL)
- Social Islami Bank Limited (SIBL)
- Shahjalal Islami Bank Limited (SIBL)
- First Security Islami Bank Limited (FSIBL)
- Export-Import Bank of Bangladesh Limited (EXIM)

The ratios which are calculated are-

SL	Name of the Ratios	Formulas
1.	Return on Equity Capital (ROE)	Net Income / Total Equity Capital
2.	Return on Asset (ROA)	Net Income / Total Asset
3.	Net Interest Margin (NIM)	[(Investment Income- Investment Expense) / Total Asset]
4.	Net Profit margin (NPM)	Net Income/Total Operating Revenue
5.	Net Operating Margin (NOM)	Net Operating Revenues / Total Asset
6.	Earnings Per Share (EPS)	Net Income / Common Equity Shares Outstanding
7.	Total Loan (Investment) to Total Deposit Ratio	Total Investment / Total Deposit
8.	Provision for Loan (Investment) loss to Total Loan	Provision for Investment Loss / Total Investment
9.	Net Loan (Investment) to Total Asset	Net Investment / Total Asset
10.	Price Earnings Ratio (P/E Ratio)	Stock Price/Earnings Per Share
11.	Non-performing Loan Ratio	Classified Investment/Total Investment

Remarks: -In the case of Islamic banking the term "Investment Income/Expense" is used instead of "Interest Income/Expense".

6.1 Return on Equity (ROE)

Return on equity of SIBL is 13.73 percent where the industry average is 11 .76 percent that represents a better position compared to these other banks. So it can be said that in financial performance comparison among the Islamic shari'ah based

banks, the SIBL is ahead from other banks in terms of return on equity. The position of these banks is shown in the graph below:

Figure 1. Return on Equity
Source: Annual reports of IBBL, SIBL, SHIBL, FSIBL and EXIM Bank Limited from 2014-2018.

6.2 Return on Asset (ROA)

Return on assets of SIBL is 1.18percent where the industry average is 0.93 percent that represents the best position compare to these other banks. So, it can be said that financial performance comparison among the Islamic shari'ah banks, the SIBL is ahead from other banks in terms of ROA. The position of these banks is shown in the graph below:

Figure 2. Return on Asset
Source: Annual reports of IBBL, SIBL, SHIBL, FSIBL and EXIM Bank Limited from 2014-2018.

6.3 Net Interest Margin (NIM)

The net interest margin of SIBL and IBBL both has 3.17 percent where the industry average is 2.82 percent that represents the best position compare to these other banks. So, it can be said that the financial performance comparison among the Islamic shari'ah banks, the SIBL and IBBL are ahead from other banks in terms of NIM.
The position of these banks is shown in the graph below:

Figure 3. Net Interest Margin
Source: Annual reports of IBBL, SIBL, SHIBL, FSIBL and EXIM Bank Limited from 2014-2018.

6.4 Net Profit Margin (NPM)

The net profit margin of SIBL is 25.70 percent where the industry average is 14.04 percent that represents the best position compare to these other banks. So, it can be said that financial performance comparison among the Islamic shari'ah based banks, the SIBL is ahead from other banks in terms of net profit margin.

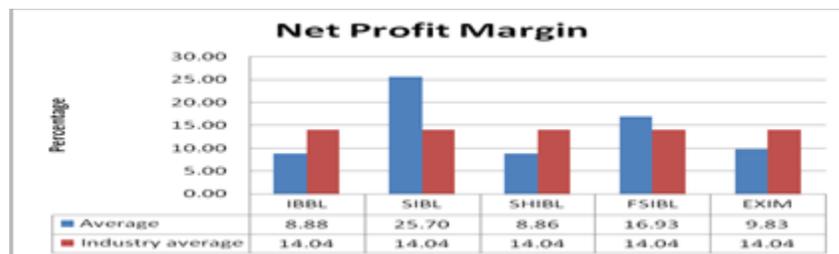The position of these banks is shown in the graph below:

Figure 4. Net Profit Margin
Source: Annual reports of IBBL, SIBL, SHIBL, FSIBL and EXIM Bank Limited from 2014-2018.

6.5 Net Operating Margin (NOM)

The net operating margin of SIBL is 2.80 percent where the industry average is 2.27 percent that represents the best position compare to these other banks. So, it can be said that the financial performance comparison among the Islamic shariah banks, the SIBL is ahead from other banks in terms of NOM. The position of these banks is shown in the graph below:

Figure 5. Net Operating Margin
Source: Annual reports of IBBL, SIBL, SHIBL, FSIBL and EXIM Bank Limited from 2014-2018.

6.6 Earnings Per Share (EPS)

Earnings per share of IBBL is 3.40 where the industry average is 2.22 that represents the best position compare to these other banks. So, it can be said that the financial performance comparison among the Islamic shariah based banks, the IBBL is ahead from other banks in terms of EPS. The position of these banks is shown in the graph below:

Figure 6. Earnings Per Share
Source: Annual reports of IBBL, SIBL, SHIBL, FSIBL and EXIM Bank Limited from 2014-2018.

6.7 Total Investment (Loan) to Total Deposit

Investment to total deposit ratio of SIBL is 84.44 percent where the industry average is 86.86 percent that represents this bank is safer compare to these other banks because they provide more loans to the customer than they deposit. So it can be said that the financial performance comparison among the Islamic shariah based banks, the SIBL is safer than other banks in terms of this ratio. The position of these banks is shown in the graph below:
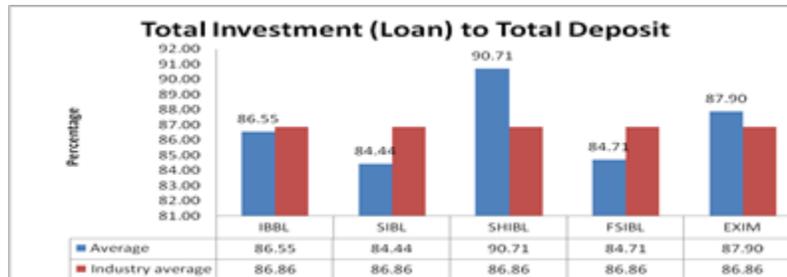

Total Investment (Loan) to Total Deposit

	IBBL	SIBL	SHIBL	FSIBL	EXIM
Average	86.55	84.44	90.71	84.71	87.90
Industry average	86.86	86.86	86.86	86.86	86.86

Figure 7. Total Investment (Loan) to Total Deposit
Source: Annual reports of IBBL, SIBL, SHIBL, FSIBL and EXIM Bank Limited from 2014-2018.

6.8 Total Investment (Loan) to Total Asset

Investment to total asset ratio of IBBL is 61.35percent where the industry average is 69.80 percent that represents the bank is more liquid compare to these other banks. So, it can be said that the financial performance comparison among the Islamic shariah banks, the IBBL is safer than other banks in terms of this ratio. The position of these banks is shown in the graph below:
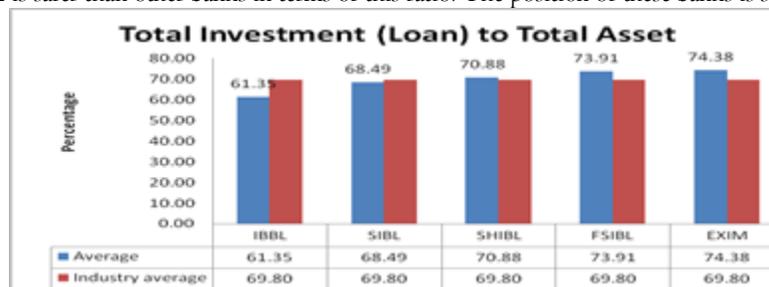

Total Investment (Loan) to Total Asset

	IBBL	SIBL	SHIBL	FSIBL	EXIM
Average	61.35	68.49	70.88	73.91	74.38
Industry average	69.80	69.80	69.80	69.80	69.80

Figure 8.Total Investment (Loan) to Total Asset
Source: Annual reports of IBBL, SIBL, SHIBL, FSIBL and EXIM Bank Limited from 2014-2018.

6.9 Provision for Investment (Loss) to Total Loan

Provision for Investment (loss) to total loan ratio of SIBL is 1.09 percent where the industry average is 0.89 percent that represents this bank is safer than other banks because this bank has reserved a higher amount of money for investment loss. So it can be said that the financial performance comparison among the Islamic shariah banks, the SIBL is a safer bank in terms of this ratio. The position of these banks is shown in the graph below:

Provision for (Investment) Loan to Total (Investment) Loan

	IBBL	SIBL	SHIBL	FSIBL	EXIM
Average	0.91	1.09	0.91	0.48	1.05
Industry average	0.89	0.89	0.89	0.89	0.89

Figure 9. Provision for Investment (Loan) to Total Investment (Loan)
Source: Annual reports of IBBL, SIBL, SHIBL, FSIBL and EXIM Bank Limited from 2014-2018.

6.10 Price Earnings Ratio (P/E)

The price-earnings ratio of IBBL Bank is 11.92 times where the industry average is 9.79 times that represents the bank is safer compare to these other banks because investors are willing to pay more amount to get this bank's EPS. So, it can be said that the financial performance comparison among the Islamic shari'ah based banks, the IBBL Bank is safer than other banks in terms of this ratio. The position of these banks is shown in the graph below:

Figure 10. P/E Ratio
(Source: Annual reports of IBBL, SIBL, SHIBL, FSIBL and EXIM Bank Limited from 2014-2018)

6.11 Non-Performing Loan Ratio

The nonperforming loan ratio of FSIBL Bank is 2.19 percent where the industry average is 3.78 percent that represents the bank is safer compare to these other banks because low NPL ratio shows the bank is engaged in low-risk lending policies. So it can be said that the financial performance comparison among the Islamic shariah banks, the FSIBL Bank is safer than other banks in terms of this ratio. The highest NPL is of SHIBL and it reflects the bad position of this bank.

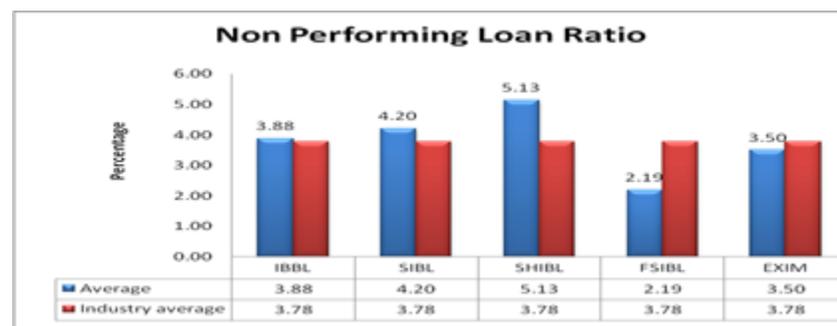The position of these banks is shown in the graph below:

Figure 11. Non-Performing Loan Ratio
Source: Annual reports of IBBL, SIBL, SHIBL, FSIBL and EXIM Bank Limited from 2014-2018.

7. Test of Hypothesis

Hypothesis 1: Net Profit Margin and Non-performing Loan

F	Significance F
1.372261675	.2534167011

Here P-value = 0.2534

Since P-value (0.2534) > α (.05), so Ho is not rejected.

Comment: It can be said that there is no significant relationship between Net Profit Margin and Non-performing Loan of Islami Shari'ah based banks in Bangladesh.

Hypothesis 2: Return on Asset and Non-performing Loan

F	Significance F
.00113	.9734768011

Here P-value = 0.9735

Since P-value (0.9735) > α (.05), so Ho is not rejected.

Comment: It can be said that there is no significant relationship between the Return on assets and Non-performing Loans of Islami Shariah-based banks in Bangladesh.

Hypothesis 3: Return on Equity and Non-performing Loan

F	Significance F
4.030355	.056577561

Here P-value = 0.0566

Since P-value (0.0566) > α (.05), so Ho is not rejected.

Comment: It can be said that there is no significant relationship between the Return on Equity and Non-performing loans of Islami Shariah-based banks in Bangladesh.

8. Regression Analysis

Regression Analysis 1: Net Profit Margin and Non-performing Loan

Where $\hat{Y}$ = Net Profit Margin

       x = Non-performing Loan

Regression Statistics	
Multiple R	0.237285145
R Square	0.05630424

Here, multiple R is 0.237285145 that means there is a very weak relationship between these two variables.

     R Square=5.6%, that means only 5.6% variation in Y explained by the regression.

	Coefficients	Standard Error	t Stat	P-value
Intercept	18.07015921	3.719804594	4.857824855	6.63847E-05
(Classified Investment/Total Investment)*100=NPL	-1.065826531	0.909846355	-1.171435732	0.253416701

Dependent Variable: Net Profit Margin in percentage

Here, a = 18.07

     b = -1.066

So, regression equation becomes, $\hat{Y}$ = 18.07 -1.066x

If Non-performing Loan is increased by 1%, then Net Profit Margin will be decreased by 1.066%. So it can be said that Non-performing loan has an adverse effect on Net Profit Margin if it is increased.

Regression Analysis 2: Return on Asset and Non-performing Loan

Regression equation, $\hat{Y}$ = a + bx

Where, $\hat{Y}$ = Return on Asset

     x = Non-performing Loan

Regression Statistics	
Multiple R	0.00700835
R Square	4.9117E-05

Here, multiple R is 0.00700835 that means there is a very weak relationship between these two variables.

R Square= .056 that means only 5.6% variation in Y explained by the regression

	Coefficients	Standard Error	t Stat	P-value
Intercept	0.9350722	0.185809146	5.032433683	4.3E-05
(Classified Investment/Total Investment)*100=NPL	-0.00150020	0.377298958	-2.0089743711	0.067578

Dependent Variable: Return on Asset in percentage

Here, a = 0.935

b = -0.0015

So, regression equation becomes, $\hat{Y}$= 0.935 -0.0015x

If Non-performing Loan is increased by 1%, then Return on Asset will be decreased by 0.0015%. So it can be said that Non-performing Loan does not affect Return on Asset so much.

Regression Analysis 3: Return on Equity and Non-Performing Loan

Regression equation, $\hat{Y} = a + bx$

Where, $\hat{Y}$= Return on Equity

x = Non-performing Loan

Regression Statistics	
Multiple R	0.386140869
R Square	0.14910477

Here, multiple R is 0.386140869 that means there is a very weak relationship between these two variables.

R Square=14.9%, that means only 14.9% variation in Y explained by the regression.

	Coefficients	Standard Error	t Stat	P-value
Intercept	14.5410807	1.497572134	9.709769812	1.33E-09
(Classified Investment/Total Investment)*100=NPL	-0.735372401	0.366298958	-2.007574371	0.056578

Dependent Variable: Return on Equity in percentage

Here, a = 14.541

b = -0.7353

So, the regression equation becomes, $\hat{Y}$= 14.541 -0.7353x

If Non-performing Loan is increased by 1%, then Return on Equity will be decreased by 0.7353%. So, it can be said that Non-performing Loan has a little effect on Return on Equity.

9. Findings
9.1 Findings from Ratio Analysis

Finding from Analysis at a Glance			
Serial No	Ratios	Bank's Performance on an average from 2014-2018	
		Highest	Lowest
1	Return on Equity %	13.73(SIBL)	10.83(IBBL)
2	Return on Asset %	1.18(SIBL)	0.47(FSIBL)
3	Net Interest Margin %	3.17(SIBL,IBBL)	2.23(FSIBL)
4	Net Profit Margin %	25.7(SIBL)	8.86(SHIBL)
5	Net Operating Margin %	2.8(SIBL)	1.31(FSIBL)
6	Earnings per Share %	3.4(IBBL)	1.64(FSIBL)
7	Total Investment (Loan) to Total Deposit Ratio %	90.71(SHIBL)	84.44(SIBL)
8	Provision for Investment (Loan) to Total Investment (Loan) %	1.09(SIBL)	0.48(FSIBL)
9	Total Investment (Loan) to Total Asset %	74.38(EXIM)	61.35(IBBL)
10	Price Earnings Ratio (Times)	11.92(IBBL)	8.14(SIBL)
11	Non-Performing Loan Ratio	5.13(SHIBL)	2.19(FSIBL)

9.1.1 Findings from Ratio Analysis are Given Below

Based on the above analysis, here the Social Islami Bank Limited (SIBL) has the best performance indicators and its overall performance is good among the Islami Shari'ah based banks in Bangladesh. So, It can be said that based on this ratio analysis, Social Islami Bank Limited (SIBL) is the best-performed bank among the Islami Shari'ah banks from 2014-2018.

9.2 Findings from Hypothesis Testing and Regression Equation

From the hypothesis testing findings are given below,

- There is no significant relationship between Net Profit Margin and Non-performing Loan of Islami Shari'ah based banks in Bangladesh.

- There is no significant association between Return on assets and Non-performing Loans of Islami Shari'ah based banks in Bangladesh.

- There is no significant connection between Return on Equity and Non-performing loans of Islami Shari'ah based banks in Bangladesh.

So, it can be said that *Non-performing Loan does not affect significantly on the profitability of the Islamic Shari'ah based banks in Bangladesh*. And from the Non-performing Loan Ratio, results say that all of the bank's ratio is near to the industry average. So, it can be said that the Shari'ah based banks in Bangladesh have a lower ratio of Non-performing Loan to Total Loan.

From the regression equation, it can be said that -

- If Non-performing Loan is increased by 1%, then Net Profit Margin will be decreased by 1.066%.
- If Non-performing Loan is increased by 1%, then Return on Asset will be decreased by 0.0015%.
- If Non-performing Loan is increased by 1%, then Return on Equity will be decreased by 0.7353%.

So it can be said that NPL has an adverse effect on Net Profit Margin. As NPL is an increase, the Net Profit Margin decreases. But Non-performing Loan does not affect Return on asset significantly and has a little effect on Return on Equity.

From the above findings, it can be said that Bangladeshi Shariah-based banks have the lower Non-performing Loan ratio because they strongly monitor the amount of loan which is given to the borrowers; that's why the relationship between the Non-performing Loan and the Net Profit Margin is not significant in case of the Shariah-based banks in Bangladesh.

10. Recommendation

Although the profitability of the Islami Shari'ah based banks of Bangladesh is higher than the conventional banks, and the Non-performing Loan Ratio is lower compared to other banks. It happens because Bangladeshi Islamic Shari'ah based banks strongly monitor the lending amount landed to the borrower. That's why the NPL ratio is lower in comparison to conventional banks of Bangladesh (according to the Financial Stability Report 2014). But Islamic banks should stay more concern to decrease the NPL amount more. Considering the findings and above discussed challenges, some recommendations are given for improving the operational efficiency of the Islamic banks in Bangladesh.

- To decrease NPL, banks should take high collateral, so that if the borrower defaults, then the bank can recover the lending amount by selling the collateral.
- Capacity building of executives in the recovery department. Different types of training should be provided to ensure the recovery of the lending amount. Banks should hire experienced employees for the recovery department.
- A separate act on Islamic banking may be enacted. Currently, the central bank has a guideline for Islamic banks. As Islamic banking has become a part of mainstream banking in Bangladesh, it has become necessary to introduce more comprehensive guidelines to bring greater transparency and accountability to the industry.
- Internal Shari'ah Auditing is generally performed in the Islamic banks. However, globally External Shari'ah Audit is also conducted to ensure Shari'ah Compliance.
- It might be desirable, at least for smaller banks to have a common Shari'ah board to determine the Shari'ah compatibility of their products. A common platform well-versed in both the Shari'ah and modern finance and having adequate research facilities may perhaps be the most suitable for providing the services of a Shari'ah board.
- It is important to activate the interbank money market of the country. Islamic banks need more Shari'ah compliant bonds to manage their liquidity effectively.

11.Conclusion

From the outcome of the comparative financial analysis of five Islamic shari'a banks, it can be said that Social Islami Bank Limited (SIBL) is holding the first position among the Islamic shari'a banks. Besides, the Islamic banks are having comparatively great risk management, so that their profitability is not affected by the non-performing loan. Shortly, Islamic banking has a vast opportunity to lead the banking industry of Bangladesh.

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