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Analysis of Financial Performance of Islamic Banks in Bangladesh: Special Reference to Al-Arafah Islami Bank Limited (AIBL)

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Abstract
Bangladesh as a developing economy has inspired developing its banking industry to promote economic growth. Money is the life blood of an economy where bank is the merchant of that money. As an integral part of any economy banking sector facilitates the way to the development of a country through the proper management & best utilization of money and that is why it is obvious to monitor & assess the performance of its activities. The point of this paper is to inspect the financial performance of Islamic banking of Bangladesh particularly in Al-Arafah Islamic Bank Limited (AIBL). Financial performance evaluation methodology used to ascertain the objectives in terms of credit performance, profitability, productivity, liquidity, leverage, valuation & growth ratios. The financial data of AIBL from 2014 to 2018 has been used and observed that almost all the trends of all the indicators are significantly positive. The credit performance is gradually increasing but the productivity shows a mixed trend whereas profitability, liquidity, leverage, as well as growth & valuation ratios Al-Arafah Islamic Bank Limited are at risk and all of these issues needed to monitored with sincerity and efficiency. Like other Islamic banks in Bangladesh the investment mode of Al-Arafah Islamic Bank Limited is mostly short term basis. For a continued expansion of the Islamic banking system, however, a number of issues that pose serious problems for Islamic banks will need to be carefully addressed. In order to bring out the potential growth through Islamic banking there has to be a strategic time bound roadmap setting out all the landmarks to be achieved. Islamic banks can satisfy most of the efficiency conditions if they can operate as a sole system in an economy. In spite of being operated in non-shariah economic structure of Bangladesh Islamic banks should increase Islamic capital market, Islamic financial instruments and proper zakat distribution and employment opportunities for the betterment of the society. The paper goes any to investigate some understanding on the household and worldwide difficulties which are confronting Islamic financial segment.
Keywords: *Islamic banking, financial performance, investment mode, ratio analysis, Al-Arafah Islamic Bank Limited (AIBL).*

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I. Introduction

Bank is an establishment authorized by a government to accept deposits, pay interest, clear checks, make loans, act as an intermediary in financial transactions and provide other financial services to its customers. (BusinessDictionary:online) Due to their importance in the financial stability of a country, banks are highly regulated in most countries. Islamic banking, also known as non-interest banking, is a banking system that is based on the principles of Islamic or Sharia law and guided by Islamic economics. Islamic economics is the knowledge and application of injunctions and rules of the Shariah (Islamic law) that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society (Team, 2014). Two fundamental principles of Islamic banking are the sharing of profit and loss, and the prohibition of the collection and payment of interest by lenders and investors. Islamic law prohibits collecting interest or "riba." Islamic Banking (IB) is a contemporary segment of banking and finance that has become increasingly significant in many Muslim countries. Islamic banking (IB) has seen rapid growth in the last few years, more than doubling between 2009 & 2014. Islamic banks, in contrast to conventional banks, operate on a Profit-Loss-Sharing (PLS) principle, that is based on the principle of Islamic law, also known as the Shariah, since Islamic law forbids interest (Abdullah, Sidek, & Adnan, 2012).

There are 10 Islami Shariah-based PCBs in Bangladesh and they execute banking activities according to Islami Shariah-based principles i.e. Profit-Loss Sharing (PLS) mode (upto 2018). With the objective of achieving success here and hereafter by pursuing the way directed by Allah & the path shown by His Rasul (SM). Al-Arafah Islamic Bank Limited was established (registered) as a private limited company on 18 June 1995. The inaugural ceremony took place on 27 September 1995 with the authorized & paid up capital of 15000.00 million & 10440.22 million respectively. To be a pioneer in Islami Banking in Bangladesh & contribute significantly to the growth of the national economy AIBL has introduced a diverse array of carefully tailored products & services as well as a modern banking system based on Al-Quran & Sunnah. The modern Islamic Banks have positioned themselves sustainably into a full-fledged interest-free system with a range of competitive products to offer so as to compete with the Modern Interest based Banking system.

There is a great interest toward Islamic banking not only by those adopted Islamic law but also in the global scale. To live up to the ideals of Islamic finance, Islamic banks face many challenges, ranging from the gap between the prevalence of debt-based instruments and the aspirations of financing predominantly through equity and risk sharing, to the need for increased social capital and the challenges of creating an enabling regulatory framework. To contribute to shared prosperity, the Islamic banking sector should focus on six key areas of improvement and adopt best practices. These include:

(i) Creating an enabling regulatory environment by supporting consistent regulations; ensuring consistent implementation of the Basel III and Islamic Financial Services Board (IFSB) frameworks; ensuring that systemic risks in dual banking systems (conventional and Islamic) are addressed; and implementing cross-border supervision (ii) Introducing innovative risk-sharing products and services, rather than replicating conventional risk-transfer products (iii) Harmonizing shariah governance through efforts to unify cross-country shariah rulings about Islamic finance, which would help accelerate the growth of the industry x (iv) Enhancing the scale and access to Islamic finance to include low-income earners (v) Improving liquidity and ensuring stability (vi) Bolstering human capital and literacy in Islamic finance (online).

After the independence, banking industry in Bangladesh started its journey with 6 nationalized commercialized banks, 3 State owned specialized banks and 9 Foreign Banks. In the 1980's banking industry achieved significant expansion with the entrance of private banks. Islamic banking started in Bangladesh through establishment of the Islami bank Bangladesh limited (IBBL), which is considered to be the first interest-free bank in Southeast Asia incorporated on 13 March 1983 as a public limited company under the company’s act 1913. At the end of 2019, Bangladesh’s 8 full-fledged Islamic banks are operating with 1198 branches out of total 10387 branches of the whole banking industry having 60 scheduled banks. In addition, 19 Islamic banking branches of 9 conventional commercial banks and 35 Islamic banking windows of 7 conventional commercial banks are also providing Islamic financial services in Bangladesh. At the end of the January-March 2019 quarter, deposits and investments grew by 2.0% and 2.76% respectively, but remittance and excess liquidity of Islamic banking industry reduced by 36.24% and 41.85% respectively compared to the previous quarter. Islamic banking industry holds almost one-fourth share of the entire banking industry in terms of deposits and investments at the end of the quarter under review. This paper aims at empirically investigating the financial performance and the efficiency level of Al-Arafah Islami Bank Limited using different financial ratios.

PRINCIPLES OF ISLAMIC FINANCE

The principles of Islamic Banking are derived from the Quran and the Sunnah. There are two arrangements of Shariah principles in Islam observed as far as Islamic Banking is concerned. The first refers to the ideal objectives of Shariah that mirrors the true picture of Islam and the second depends on some moderations that do not reflect the true picture of Islam. It is observed that the former is provided for usual circumstances while the latter is for abnormal conditions given in the period of extraordinary need. In the context of Islamic banking system today, its operations, transactions and financial activities are much based on the second principle which does not follow the true picture of Islamic order due to its necessity to follow the unusual situation of today’s business environment. Principles of Islamic finance is constrained by Sharia, the legitimate framework of Islam and its Quranic understanding, alongside the lessons of Sunna. This system gives rules to individuals to follow the standards of the Holy Quran and the Sunna in their dynamic in all parts of life. The principles of Islamic finance have been extensively studied by Muslim and Non-Muslin scholars.

The general principles of Islamic banking involve: (i) the prohibition of Riba (usury or excessive interest) and the removal of debt-based financing from the economy; (ii) the prohibition of Gharar, encompassing the full disclosure of information and removal of any asymmetrical information in a contract; (iii) the exclusion of financing and dealing in sinful and socially irresponsible activities and commodities such as gambling and the production of alcohol; (iv) risk-sharing, the provider of financial funds and the entrepreneur share business risk in return for shares of profits and losses; (v) materiality, a financial transaction needs to have a ‘material finality’, that is a direct or indirect link to a real economic transaction; and (vi) justice, a financial transaction should not lead to the exploitation of any party to the transaction.

In an Islamic mortgage transaction, instead of loaning the buyer money to purchase the item, a bank might buy the item itself from the seller and resell it to the buyer at a profit, while allowing the buyer to pay the bank in installments.

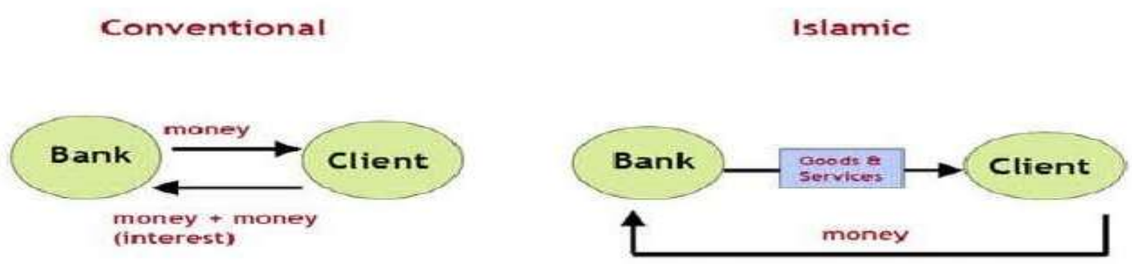

Figure-1: Conventional vs. Islamic Banking

CHALLENGES FACED

Several challenges faced by Islamic finance system are as follows:

- All the banks are relatively recently established. The oldest commercial Islamic bank was established in 1973.
- The most obvious challenges are the limited number of existing Shariah scholars, lack of product standardization and shortage of skilled personnel to sustain growth of the industry.
- "Low levels" of mindfulness and comprehension of Islamic fund items and administrations among general society, driving them to not disparage these items and administrations;
- A recent study by Middle East Global Advisors found 64% of industry executives believe there is a limited number of suitably qualified staff for the Islamic finance industry.
- There is an odd discernment created among the bank clients that there is no judicious distinction in Islamic bank items as these are also using the same interest based benchmark.
- Regulatory/tax reforms play a pivotal role for the growth & development of Islamic banking industry.
- Some challenges are being addressed naturally as an increasing number of young people are working and training towards becoming Shariah scholars.
- Regulators may not always have the capacity (or willingness) to ensure Shariah compliance.
- Islamic banks don’t deal with interest-bearing bonds and subsequently the requirement for equity markets is much higher in an Islamic structure.
- Additionally, the growth of FinTech, has allowed some markets to create a more stable and centralized system by implementing technology such as block chain for more efficient and secure transactions at reduces costs.
- The capital structure of Islamic banks is different from that of conventional banks.
- Deposits in Islamic banks are usually based on the principle of profit and loss (Musharaka or Murabaha). If a bank goes for a loss it has to be borne by the depositor directly which is the biggest fear & barrier to deposit mobilization in Islamic banks. In some cases, it leads to withdrawal of funds etc.

STATEMENT OF THE PROBLEM

The existing banking system of Bangladesh presents the mixture of private, public and foreign commercial banks among which some are conducting Islamic banking at full-fledged and some are doing Islamic banking partially by opening wings. Al-Arafah Islami Bank Limited is renowned one among banks those are doing Islamic banking completely based on Islamic Shariah. The increasing number of Islamic banks & its rapid growth, increasing number of Islamic banking windows of conventional banks etc. certainly & clearly show the significant completion & acceptance of Islamic banking throughout the country. Proper allocation as well as its effective and efficient management are significantly important for growth (both long & short term), development & improvement of the national economy of a country. To facilitate this purpose the banking activities & financial performance of every bank whether conventional or Islamic bank needed to be evaluated periodically. The present study will serve this purpose through answering some question such as financial performance status of AIBL, potential problems in the way of implementation of Islamic banking and the possible solution to overcome the problems to attain sustainable banking for smooth & sound economy as well as rapid economic growth.

RATIONAL OF THE STUDY

The present study deals with the ongoing financial performance of AIBL. It mainly focuses on the analysis of the financial performance presented on the bank's financial statement. It provides a real picture and significant information of financial performance which is beneficial both to the potential as well as existing shareholders, management of the institution and other stakeholders as well. Hopefully the study will be useful to the different parties like researchers, research group, academicians and so on who need to lead further study in this field in the perspective of review. Although different studies have been conducted on both types of banking this study will add more meaning/sense to the judgment of financial performance of Al-Arafah Islami Bank Limited (AIBL).

THE OBJECTIVES OF THE STUDY

Islami Banking a new type of banking business that operates on principles adhering to the Quranic norms forbidding usury and transactions, including granting of loans or credits for interest. The ultimate objective of this study directed toward the examination of the financial performances of Al-Arafah Islami Bank Limited along with the measurement of its performance as well as identification of problems usually faced by AIBL and recommendations accordingly to overcome the issues that will be the positive remark for sustainable growth of AIBL.

II. Review of Literature

Islamic banking is an area that has mushroomed to become an increasingly substantial segment within the global financial market. An Islamic bank with a high quality of service will be able to cope with the stiff competition from conventional banks and new arrivals to the market (Othman & Owen, 2001). Not only that, but a high-quality service performance also would lead to satisfaction, loyalty and a higher probability for customers to recommend the bank to someone else (Zeithaml, Berry, & Parasuraman, 1996. Service quality, according to Parasuraman, Zeithaml, and Berry (1988), is a function of pre-purchase customer expectations, perceived process quality, and perceived output quality. It has been recognized as a viable and competitive form of financial intermediation not only in Muslim countries but also outside the Muslim world and offering a wide range of financial products and services. The industry that started on a modest scale since its inception in the mid-1970s has shown a rapid expansion (double-digit annual growth rates for almost 30 years) and evolution over the past three decades.

Modern Islamic banking concepts came from the historical practice of the concept of a 'three-tier mudaraba'.

- **The first tier**, there is the individual, *rab-al-mal*, who wishes to invest capital.
- **The second tier** is the mudarib (agent), to whom the rab al-mal entrusts his capital by contract and finally,
- **The third tier**, there is the entrepreneur, with whom the mudarib signs a contract, and to whom the mudarib passes the capital originally entrusted to him by the rab-al-mal.

Islamic finance is a financial service that is compliant with the main tenets of Islamic law which comes from the Holy Quran, Hadith, Sunna, Ijma, Qiyas and Ijtihad (Gait & Worthington, 2007). Islam does not permit the unjustifiable increase of capital either in the form of loans or sales. This principle aims at establishing justice and equality. Many scholars have tried to define Islamic banking from broad as well as narrow perspectives and in the process, have highlighted on other principles of this financing system. Among the other principles, risk sharing is one where the provider of capital and the entrepreneur both share risk and return of the venture. Also, speculative behavior is prohibited in Islam if there is extreme uncertainty involved. In order to reduce risk, this financing system sets disclosure of information as a sacred duty which in turn minimizes the probability of moral hazard as well as asymmetric information.

Shompa (2016) found that the performance of Al-Arafah Islami Bank Limited was better in some ratios like cash conversion cycle, creditors' payment period, credit risk and growth. But on the other hand, the performance of Islami Bank Bangladesh Limited was better in some ratios like debtors' payment period and leverage. Overall results showed that the working capital management of Al-Arafah Islami Bank Limited is better than Islami Bank Bangladesh Limited. Islam and Ashrafuzzaman (2015) found no significant difference between the Islamic banks and conventional banks regarding capital adequacy, management capability and earnings but found a significant difference regarding asset quality.

In terms of studies that examine the financial performance of Islamic banks during certain period, Sarker (1999) analyzed efficiency of Islamic banks under conventional banking framework in Bangladesh. The result revealed that Islamic banks could not operate with its full efficiency level if it operated under a conventional banking framework. He argued further that Islamic product had different risk characteristic, so that different prudential regulation should be established.

In Bangladesh, the banking system consists of a mix of public, private and foreign commercial banks. Some of them are conducting Islamic banking at full-fledged and some of them are working by opening Islamic banking window with adopting modern electronic banking technology (Sarker et al., 2015). Islamic banking started it journey in 1983 with the opening of Islamic Bank of Bangladesh Limited (IBBL). Recent statistical data shows that the growth of Islamic banking in Bangladesh is steadily progressing day by day following the establishment of the first Islamic commercial bank, which is contrary to how conventional banks in general are doing at present. Islamic banking is steadily becoming an established major player in the mainstream banking industry around the world. It is important that continuous efforts of improvement in areas that are lacking need to be focused on and resolved. Hence, the aim of this study is to empirically investigate the performance and the efficiency level of Al-Arafah Islami Bank Limited during the study period in general.

STUDY METHODOLOGY

For the present study Al-Arafah Islami Bank Limited has been selected to get a recent status of financial performances that can facilitate the decision making process of its stakeholders. Different frequently used financial ratios have been considered to evaluate the financial performances of AIBL. Face to face interview method has been used to gather primary data from officials at different levels. Annual reports of 2014 to 2018 have been used as the source of secondary data. Distinctive distributed sources like books, scientific journals, periodicals, magazines, papers and internet sources have also been considered for the present study.

DATA ANALYSIS & INTERPRETATION OF THE STUDY
DATA SOURCE: Annual Report of AAIBL: 2014-2018

Measurement of Credit Performance

We used the following techniques to measure the credit performance of the Al-Arafah Islami Bank Limited (AIBL):

i. Investment Scenarios

ii. Classified Investment to Total Investment Ratio = Classified Investment/Total Investment*100

Serial No.	Year	2014	2015	2016	2017	2018
1	Total Investment (Figure in Million Tk.)	146,740.37	162,503.14	196,519.38	235,905.23	261,874.13
2	Classified Investment Ratio (%)	4.48	4.50	4.38	4.03	4.63

Table-1(i): Investment & Classified Investment Scenarios of AIBL

Serial No. 1. The greater/higher the rate of credit to Volume of Working Fund states the better for the institution & besides it is more risky also. The average rate of credit to Volume of Working Fund of AIBL was comparatively higher in 2016, 2017 & 2018 indicating better performance in these years (Table-1(i)).

Serial No. 2. The smaller the rate of Classified Investment to Total Investment the better for the institution. The average rate of Classified Investment to Total Investment of AIBL was comparatively lower in 2017, 2016 & 2014 indicating the best performance in the stated years respectively (Table-1(i)).

Table-1(i) can be shown in the following Figure-2(i):

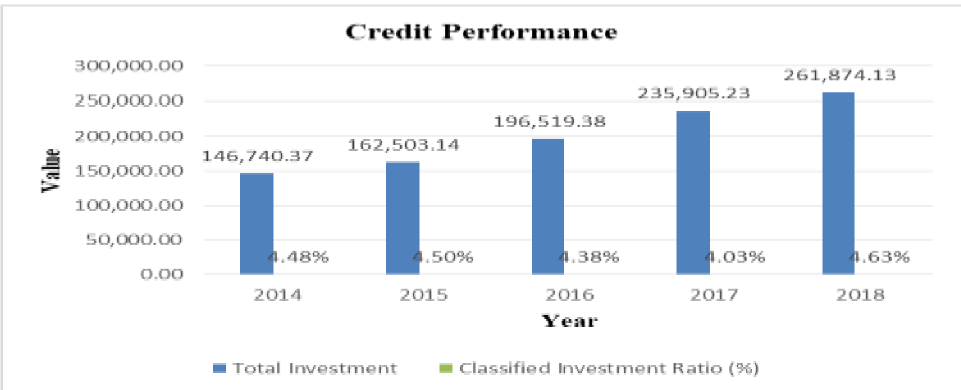

Figure-2 (i): Credit Performance of AIBL

iii. Growth Rate of Total Credit

Growth Rate of Total Credit = (Current Year-Previous Year)/Previous Year×100

Year	Total Credit of Current Year (Figure in Million)	Total Credit of Base Year (Figure in Million)	Growth Rate (%)
2014	146,740.37	146,740.37	0.00
2015	162,503.14	146,740.37	10.74
2016	196,519.38	146,740.37	33.92
2017	235,905.23	146,740.37	60.76
2018	261,874.13	146,740.37	78.46

Table-1(ii): Computations of Growth Rate of Total Credit (%)

Table-1(ii) shows that growth rate of total credit indicates the positive tendency of bank clients to collect their required funds from this Bank. The greater/higher the growth rate of total credit the best for the institution & its profitability. It was found that higher the growth rate of total credit showed in 2018 which tells that it is good for the institution.

Table-1(ii)) can be shown in the following Figure-2 (ii):

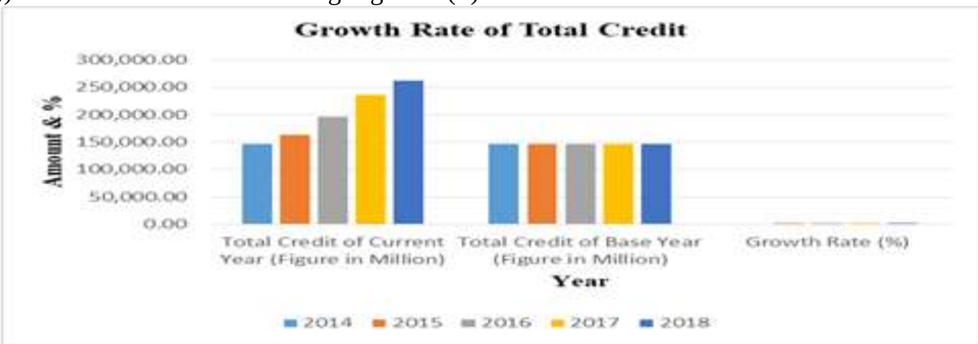

Figure-2(ii): Growth Rate of Total Credit (%) of AIBL

Measurement of Profitability

The following techniques have been used in the study to measure the profitability of AIBL:

i. Return on Assets (ROA) = Net Profit After Tax/Total Assets excluding Contra×100

ii. Return on Equity (ROE) = Net Profit/Total Equity×100

Serial No.	Year	2014	2015	2016	2017	2018
1	Return on Asset (%)	1.10	1.08	1.23	0.99	0.73
2	Return on Equity (%)	12.80	12.82	15.70	14.07	10.46

Table-2: Return on Asset (ROA) & Return on Equity (ROE) of AIBL (%)

Serial No. 1. From Table-2 we can see that the average return on asset ratio in 2016 was highest during the considerable time period. It was comparatively good for organization among the years. But from the immediate next year ROA is decreasing gradually; the bank should concentrate to improve the situation.

Serial No. 2. Table-2 shows a mixed trend of the return on equity (ROE) of the bank. The trend from 2014 to 2016 was increasing but from the immediate next year it is decreasing. From this mixed trend it can be said that the management was good in first considerable three years (2014-2016) as it was using bank's equity to generate profit & not good in the next considerable two years (2017 & 2018). The management of the bank should concentrate on this trend for improving the situation.

Table-2 can be presented in the following Figure-3:

Figure-3: Profitability of AIBL

9.3 Measurement of Productivity

The following techniques have been used in the study to measure the productivity of AIBL:

i. Deposit per Branch = Total Deposits/Total No. of Branches

ii. Profit per Branch = Total Profit Received on Investment/Total No. of Branches

Year	No. of Branches	Total Deposits per Branch (Figure in Million Taka)	Total Profit per Branch (Figure in Million Taka)
2014	119	1402.11	59.74
2015	129	1316.95	58.10
2016	140	1426.46	63.37
2017	154	1589.65	56.54
2018	168	1584.56	51.77

Table-3: No. of Branches, Total Deposit & Total Profit per Branch of AIBL

Total Deposits per Branch: Table-3 shows that the average deposit per branch of AIBL was sound although there is a mixed trend in deposits per branch of the bank. The management should find out the reasons for this up & down trends of deposits and should ensure a consistence & positive trend of deposits per branch of the bank.

Total Profit per Branch: Table-3 presents that the average profit per branch of AIBL was sound though there is a mixed trend in profit per branch of the bank. The management should find out the reasons for this upward & downward trend of profit per branch and should ensure a consistence & positive trend of profit per branch of the bank.

Table-3 can be shown in the following Figure-4:

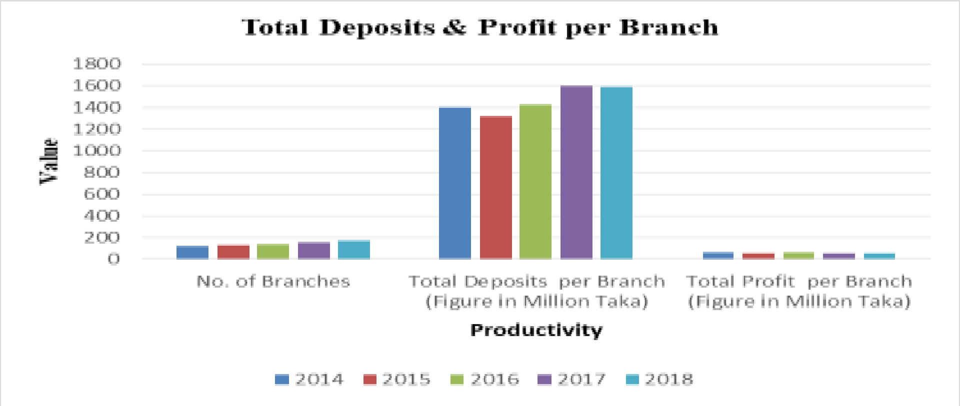

Figure-4: Productivity of AIBL

Measurement of Liquidity

To measure the solvency of the selected banks to measure the actual performance of Al-Arafah Islami Bank Limited (AIBL), we used the following techniques:

i. Current Ratio = Total Current Assets/Total Current Liabilities

Total Current Assets: *Cash in hand, Balance with other Banks and Financial Institutions, Placement with Banks & Other Financial Institutions, Bills purchased and discounted.*

Total Current Liabilities: *Placement from Banks & Other Financial institutions, Bills Payable.*

ii. Quick Ratio = Total Quick Assets/Total Current Liabilities

Total Quick Assets: *Cash in hand, Balance with other Banks and Financial Institutions, Placement with Banks & Other Financial Institutions.*

iii. Cash Ratio = (Cash + Marketable securities)/Current Liabilities

Here cash includes only Cash in hand.

iv. Net Working Capital = Current Assets – Current Liabilities.

Serial No.	Year	2014	2015	2016	2017	2018
1	Current Ratio	3.67	3.44	2.26	2.24	2.68
2	Quick Ratio	3.36	2.44	1.66	1.66	1.94
3	Cash Ratio	2.77	2.44	1.53	1.44	1.63
4	Net Working Capital (in Million Tk.)	27448.45	34202.50	34144.57	41362.44	38344.97

Table-4: Liquidity scenarios of AIBL

1. (Current Ratio) The norm for the current ratio is 2:1. Hence from the Table-4, it is noticed that the current ratio of AIBL met up the norms but it is decreasing year after year from 2014 to 2017. It is again increasing in 2018.

2. (Quick Ratio): A quick ratio of 1:1 is usually considered satisfactory. From the Table-4, it had been found that the average quick ratios of AIBL were rather more than the norms which suggests ABIL had higher unproductive fund and it also indicates the bank should target on investment because unproductive fund increase cost similarly decrease income. Bank should maintain efficiency in working capital management. The bank should maintain a stable norm & trend of the quick ratio for sustainability.

3. (Cash Ratio): The cash ratio is that the most stringent ratio for measuring liquidity. From the Table-4, it is seen that although ABIL had sufficient cash in hand, the trend is decreasing which may be dangerous for its future liquidity.

4. (Net Working Capital): Table-4 shows positive Net Working Capital of AIBL over all the considerable periods. This implies that AIBL will pay all of its current liabilities using only current assets. In other words, AIBL is extremely liquid and financially sound within the short-term. If AIBL's liabilities exceeded its assets, the WC would be negative indicating that its short-term liquidity isn't as high because it may well be.

Table-4 can be presented in the following Figure-5:

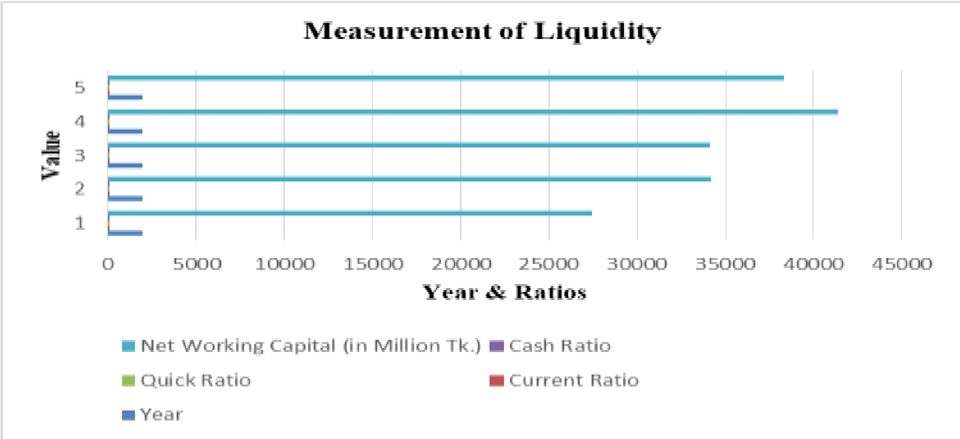

Figure-5: Measurement of Liquidity

Leverage Measurement

i. **Debt Ratio** = Total Debt/Total Assets

Equity Ratio = Total Equity/Total Assets

iii. **Debt to Equity Ratio** = Total Debt/Total Equity

iv. **Times Interest Earned/ Interest Coverage Ratio** = EBIT (Operating Profit)/Interest Expenses

***Here,** Profit paid on deposits & Borrowing = Interest Expenses*

Profit/ (Loss) before Tax & provision = EBIT

Serial No.	Year	2014	2015	2016	2017	2018
1	Debt Ratio	0.91	0.90	0.91	0.93	0.93
2	Equity Ratio	0.09	0.08	0.08	0.07	0.07
3	Debt to Equity Ratio	10.59	10.75	11.65	13.18	13.41
4	Times Interest Earned/ Interest Coverage Ratio (%)	45.01	50.43	65.33	57.85	38.67

Table-5: Leverage position of AIBL

1. (Debt Ratio): Debt Ratio shows what quantity the entity relies on debt to finance assets. The upper the ratio, the greater the danger related to the firm's operation. An associational debt ratio indicates conservative financing with a chance to borrow within the future at no significant risk. Maximum normal value is 0.6-0.7. If the ratio is smaller amount than 0.5, most of the company's assets are financed through equity. If the ratio is bigger than 0.5, most of the company's assets are financed through debt. Here it's evident that the debt ratio of AIBL is beyond the conventional value over all the considerable periods which may be bad sign for this bank (Table-5).

2. (Equity Ratio): Equity ratios that are 0.50 or below are considered leveraged companies; those with ratios of 0.50 and above are considered conservative (Conservative companies are less risky as compared to leveraged companies), as they own more funding from equity than debt. The Table (Table-5) shows the equity ratios of AIBL are below 0.50 from 2014-2018 indicating a leveraged entity. AIBL's equity ratios don't seem to be healthy ratios.

3. (Debt to Equity): The debt to equity ratio shows the share of company financing that comes from creditors and investors. A higher debt to equity ratio indicates that more creditor financing (bank loans) is employed than investor financing (shareholders). The trend of debt to equity ratio of AIBL wasn't favorable because the ratios were increasing year after year. It showed a risk for this Bank (Table-5).

4. (TIE Ratio): Higher value of times interest earned (TIE) ratio is favorable because it shows that the corporate has sufficient earnings to pay off interest expense and hence its debt obligations. In general, if the ratios among study periods are gradually forwarding AIBL will share the payment of interest on investment. The ratios among the year showed that it absolutely was gradually increasing from 2014-2016 and reached at its highest at 65.33% in 2016 but afterward that the ratios gone down from 2017 which tells AIBL shout be responsive to stop the downturn (Table-5).

Table-5 can be shown in the following Figure-6:

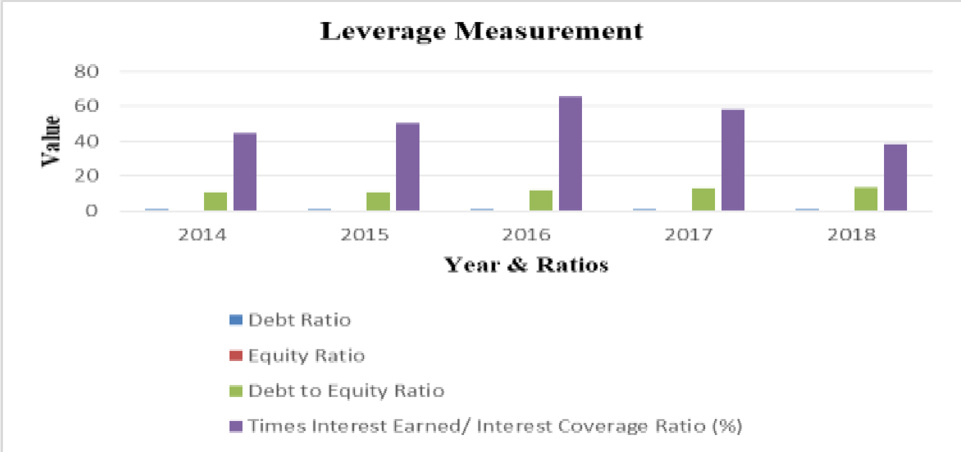

Figure-6: Levarage Measurement of AIBL

Valuation & Growth Ratio

i. **Book Value per Share (Tk.)** = Shareholder's Equity/Total Shares Outstanding
ii. **Market Price per Share** = Total Market Value of Shares/ Total No. of Shares Outstanding
iii. **Earnings per Share (Tk.)** = Net Earnings/ Total Shares Outstanding
iv. **Price Earnings (P/E) Ratio (Times)** = Market Price per Share/Earnings per Share
v. **Return on Shareholder Fund** = Net Profit After Tax/Total Shareholder's Funds (Equity) ×100
vi. **Net Asset Value Per Share** = (Market Value of all Securities Held + Cash & Cash Equivalent – Liabilities)/No. of Shares Outstanding
Here, Market Value of all Securities Held = Investment in Share & Securities
Cash and Cash Equivalents = Cash in hand
Liabilities = Total Liabilities

Serial No.	Year	2014	2015	2016	2017	2018
1	Book Value per Share (Tk.)	17.53	18.49	19.70	20.80	20.68
2	Market Price per Share (Tk.)	14.90	14.70	15.90	24.10	19.90
3	Earnings per Share (Tk.)	2.24	2.34	3.06	3.09	2.31
4	Price Earnings (P/E) Ratio (Times)	6.65	6.28	5.20	7.80	8.61
5	Return on Shareholder Fund	12.77	12.68	15.52	14.88	11.15
6	Net Asset Value Per Share (Tk.)	-170.48	-182.36	-207.61	-247.14	-263.02

Table-6: Valuation & Growth Ratios of AIBL

1. (Book Value per Share): It is evident from the Table-6 that book value per share of AIBL is high & gradually increasing during the study period except in 2018. As the bank's BVPS increases, the stock should be perceived as more valuable and the stock price should increase.

2. (Market Price per Share): Market value per share of AIBL is gradually increasing which shows the increasing interest of public to invest in it. But the fall in the trend in 2018 suggest the management to be more careful in this regard (Table-6).

3. (Earnings per Share): This ratio is used to understand whether investing in it is worth the money or not. The higher earnings per share of a company shows the greater profitability. The analysis showed here (Table-6) a steady upward trend in EPS from 2014-2017 but it come to fall the immediate next year (2018) which tells AIBL should be more careful to keep the trend up so that shareholders' satisfaction can be achieved & retained.

4. (Price Earnings (P/E) Ratio): P/E Ratio is used to check whether the shares are over or underpriced as compared to its earnings potential. There is a downturn in AIBL's P/E ratio up to a certain period but now the trend is being grown from 2017. As the overall P/E ratio is not satisfactory, management should concentrate on it (Table-6).
5. (Return on Shareholder Fund): The greater the percentage, the more money is being returned to investors. It helps business owners and financing professionals determine a company's financial health. There is no stability found in the analysis (Table-6) & mostly it is decreasing except in 2015.
6. (Net Asset Value per Share): When talking about value, it is assumed that the higher the better as it implies a better performing company which is also likely to have a high level of investor confidence. The analysis (Table-6) tells the bad condition of the bank day after day.
Table-6 can be presented in the following Figure-7:

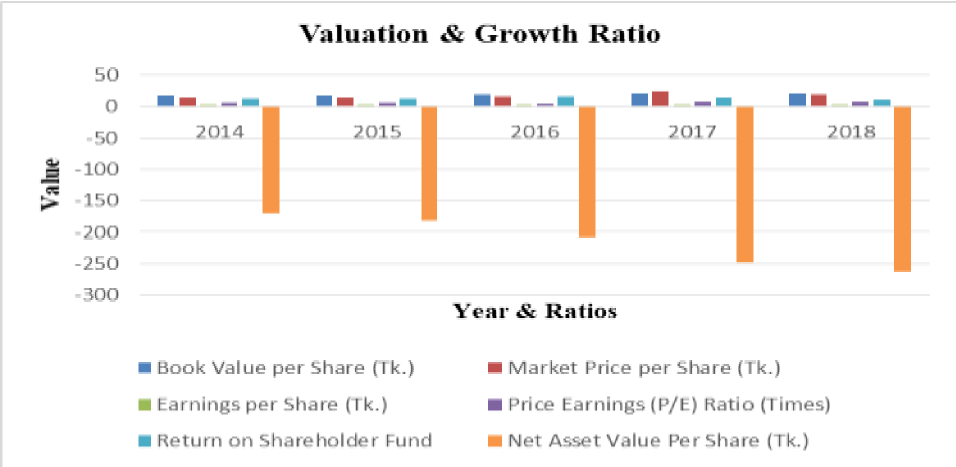

Figure-7: Valuation & Growth Ratio

III. Findings and Recommendations for Policy Implication

The present study highly concentrated on the financial performance of AIBL over a period of 2014-2018. After the analysis of financial performance of AIBL it is evident from the present study that the overall credit performance of the bank is mostly satisfactory. There is a decreasing trend found in the profitability of the bank during the study period. It is also evident from the analysis that the bank's productivity is sound although there is a downtrend found in the recent years. The analysis exhibited that AIBL has a positive net working capital and besides this it also showed that the overall liquidity of the bank indicates idle fund in hand in some extents. The measurement of leverage state of AIBL is mostly not quite satisfactory. The valuation and growth ratios of the bank pointed that there is a mixed trend in this contest which is not good for goodwill and future sustainability of the bank. Recommendations based on the findings of the study can be drawn for the management of the bank for the improvement of it in near future. AIBL should concentrate more on it credit performance to keep the increasing trend up to prevent the number of defaulters and their amount. The ROA and ROE need to be more carefully handled to prevent the decreasing trend. Though the productivity is increasing gradually but the growth if it is very slow which needs to be stimulated significantly for the bank's viability. The management of the bank should handle the bank's liquidity more carefully so that the bank can strictly maintained it but there will be no or little idle fund. The excess fund in it should be invested in other profitable arms. The unsatisfactory situation in its leverage position needs to be upgraded soon for the bank's survival in future. The valuation and growth ratios of the bank would be more consistent through providing more return to its shareholders.

Again the following policy actions are suggested for immediate application:

Al-Arafah Islami Bank Limited should keep on investigating new fields of investment and find a way to open new branches all over the country especially for rural area in order to bring most of the rural people under banking and will attempt to receive client-oriented policies and introduce new strategies that will assist to earn profit and increase greater confidence of the current forthcoming clients. The bank's authority should be more creative as well as introduce innovative and unique modem customer services to remain competitive like mobile app for varied transactions. The Bank should go forceful and promotional activities in the form of CSR activities to get a wide geographic inclusion. Inclusion of different modes of investment and deposit mechanism based on the Islamic rules & regulations for carrying higher productivity in future. AIBL should provide frequent training to make its manpower skilled to do its financial activities more efficiently. Pilot conspires in some selected regions ought to be begun both in urban and country regions to test imaginative thoughts with profit-loss-sharing modes of financing as significant component. It will be helpful to have strong cooperation among Islamic banks to communicate the Islamic banking knowledge and interest free banking. Islamic banks ought to obviously promote the message that their banking practices are not guided simply by gainfulness measure. Their practices are to guarantee efficient allocation of national resources and provide auspicious and significant market flags through PLS modes. Income and expenditure sources should be disclosed in the bank's annual report to make its clients that their income and expenditure were earned according to Shariah. The ongoing financial innovations might be attempted to suit the need of the incorporated worldwide Islamic money related markets. Islamic banks should have a look on the risk bearing indicators like return on equity to ensure the viability of them. Islamic banks ought to consistently screen and spread the messages that the effect of their procedure on the appropriation of pay essentially between the bank and the other two gatherings: the contributors and the business visionary, and afterward on various income gatherings of the general public. The Islamic banks can be particular in picking clients for financing under PLS modes. The Islamic banks ought to effectively consider the utilization of rural potentials from both proficiency and value grounds with regards to the present day socio-financial states of Bangladesh.

IV. Concluding Remarks

Being listed as an Islamic Bank Al-Arafah Islami Bank Limited is running all of its banking activities based on the Islamic rules & regulations (Quran and the Sunnah). This study has been conducted on AIBL using different financial ratios & it shows that AIBL is doing at a moderate level but getting a better position day after day on the basis of its performances. AIBL should be more careful to the deposits collection, lending deposited money as well as mostly to its valuation and growth possibilities through providing higher return to its shareholders. The bank should also increase the portfolios of its financial products. It should make its annual reports more meaningful for its stakeholders. The analysis section suggests that financing, cost of fund, profit margin etc. should be in such a way that will lead the bank in a profitable one along with the significant welfare of the society. As conventional banks adopt the markets mostly the Islamic banks operated here are facing problems regularly and AIBL is not an exception to conduct its banking activities based on Islami Shariah. In order to be an iconic financial institution in the financial system & in the society as well Islamic banks have to do a lot & go a long where the recommendations of this study can contribute much. Besides all of these Govt. & the central bank can play a vital role by taking favorable & positive initiatives that can strengthen the way for Islamic banks to go forward. This study does not clash with other studies that have been already done regarding efficiency & financial performances of Islamic banks particularly in a growing economy like Bangladesh. While non-Muslim nations, for example, USA, UK, China, and South Africa are understanding the advantages of Islamic banking, Bangladesh is yet to completely understand the advantage of what Islamic banking brings to the table. With diversified initiatives, Bangladesh can likewise receive all the rewards that Islamic banking brings to the table to the individuals of the nation.

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