Financial Performance Analysis of Islamic Bank in Bangladesh: A Case Study on Al-Arafah Islami Bank Limited

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Banking sector is an important sector of an economy of a country, so it is necessary to monitor and evaluate the performance of it. The aim of this paper was to examine the performance of Islamic banking of Bangladesh in particular the experience for Al-Arafah Islamic Bank Limited. The paper goes further to explore some experience on the domestic and global challenges which are facing Islamic banking sector. Performance evaluation methodology used to ascertain the objectives in terms of profit maximization, capital structure and liquidity ratios. We used the financial data of bank from 2010 to 2014 and observed that the trend of all the indicators are positive. The ability, efficiency and number of products of Al-Arafah Islamic Bank Limited are increasing gradually. The investment of Al-Arafah Islamic Bank Limited is mostly on short term basis which is generally similar to other Islamic banks in Bangladesh. Islamic banks are facing some difficulties in their operations especially for non-shariah structure of their stakeholders. This study suggests that Islamic banks of Bangladesh should increase Islamic capital market, Islamic financial instruments, and proper zakat distribution and employment opportunities for the betterment of the society.

Keywords: Islamic banking, interest free banking, financial performance, analysis, Al-Arafah Islamic Bank Limited (AIBL)

INTRODUCTION

Islamic bank is a financial institution which must comply with the Islamic Shariah rules based in its aims, principles as well as practices and must avoid the interest in any of its operations (Ahmed, 2004). Al-Arafah Islami Bank Limited (AIBL) was established as a private company on 18 June 1995 and launched activities on 27 September 1995. The main objectives of AIBL is to get success here and hereafter by pursuing the way directed by Almighty Allah and the way shown by his messenger Muhammad (PBUH). It is committed to contribute significantly to the national economy. It is an Islamic bank which is maintaining the principles of Islamic Shariah which is based on “Quran” and “Sunnah” and trying to establish the maximum welfare of the society. The Islamic Shariah prohibits interest in any form of banking operation. The concept of Islamic banking develops regarding it to establish interest free banking worlds that run according to Islamic Shariah (Sarker and Rashid, 2015). The definition of Islamic Bank, as approved by the General Secretariat of the OIC, defined as “An Islamic Bank is a Financial Institution whose statutes, rules and procedures expressly state its commitment to the principles of Islamic Shariah and to the banning of the receipt and payment of interest on any of its operation.”

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In the mid-twentieth century, Islamic banking started its journey and has continued till today. It is already gained attention of the whole financial world as a novel phenomenon. It has been construed and got a better position in financial world by using Islamic financing instruments (Siddiqi, 1983). Islamic banking and financial assets cover almost 1% of total global financial assets and it is a faster growing sector than conventional finance since the 2007 to 2008 banking crisis, and this trend is anticipated to continue into the near future (The Economist, 2014). The characteristics and features of Islamic banking in most parts is to be regarded as significantly distinctive and unique. Though there are certain linkages in terms of similarities with its conventional counterpart in a wide arrangement of its operation. Molla et al. (1988) observed that, the aim of Islamic banking is not only the elimination of interest from all operations of bank but also contributes to the poverty alleviation through introduction of the Zakah system. It is further supported by Warde (2000) who emphasized to one of the great features that Islamic banking strives for a just, fair and balanced society as pictured in the area of knowledge of Islamic economics, which makes it different from its conventional counterpart. Islamic banking is evenly acceptable to Muslim as well as non-Muslim customers due to its justified and loss-profit-sharing feature (Dar and Presley, 2000). It has contributed to the remarkable growth in economy encompassing a multitude of countries globally in last few decades. For operating economic activities in a country, banking is an essential part which controls smooth economic growth (Teker et al., 2011). Economic activities without the help of banking system are unthinkable like a human body without heart (Stankeviciene and Mencaite, 2012). Islamic banking is growing in number and size all over the globe. According to some estimates Islamic banking has grown at an annual rate of 15% over the past few decades. Tiemsani et al. (2016) reported that “the discourse of Islamic banking involves: (a) equity rather than debt, (b) financing in strict relation to assets rather than leverage, (c) transparency and information sharing between investor and the manager, (d) diversification of risk by risk sharing. In contrast, the discourse of conventional finance failed as a result of (a) too much debt, (b) overleveraging of assets and (c) excessive securitization and creation of new assets that were neither transparent nor understood”.

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). Bangladesh Bank is the central bank which has the responsibility to control the monetary policies of the country and control of all commercial banks that are working in the country. 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. Based on the existing supporting factors that are in support of Islamic banking growth, it does appear that the inclination is likely to continue. However 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.

Statement of the problem

There are nine fully fledged Islamic banks working in Bangladesh. Al-Arafah Islami Bank Limited (AIBL) is one of the renowned organizations based on Islamic Shariah. The activities of AIBL are different from the activities of other conventional Bank. It follows the Islamic rules and regulations for conducting their banking activities. An intensive competition among banks in Bangladesh has arisen by providing innovative Islamic products, and efficient management in resources allocation and saving money due to Islamic banking expansion. It is a well-known fact that is an effective and efficient banking system is important for long-term growth and crucial for economy development (Al Khathlan, Gaddamand Malik, 2009). So it is necessary to know the answer of some questions related to overall activities and performance of Al-Arafah Islami Bank Limited such as (i) what is the performance status of AIBL? (ii) What are the problems faced by AIBL in implementing Islamic banking in Bangladesh? (iii) What are the possible ways of achieving sustainable banking?

Rationale of the study

The banking system in Bangladesh is mainly two types such as conventional banking which is interest based another is Islamic banking which is interest free. Islamic bank follows the principles of Islamic Shariah for operating their transactions. A lot of research has been conducted on other banks but almost no research done on Al-Arafah Islami Bank Limited. Actually, it is very difficult to implement Islamic banking where conventional banking already adopted the market, so it is facing so many problems during implementation. Islamic ideology may persist only in an Islamic country but in a country where conventional systems of banking prevail. So, it is necessary to conduct study for fulfillment of the demand of the time.

The Objectives of the Study

The main objective was to examine the performance of Islamic banking of Bangladesh in particular the experience for Al-Arafah Islamic Bank Limited (AIBL). The other objectives of the study were as follows:
a) To measure the performance of Al-Arefah Islami Bank Limited (AIBL).
b) To identify the problems faced by AIBL.
c) To suggest measures based on findings for sustainable growth of AIBL.

LITERATURE REVIEW

A brief summary of the research relevant to performance analysis of Al-Arefah Islami Bank Limited is enumerated below will support this assumption:

Tlemsani et al. (2016) reported that Islamic finance is explicitly concerned with spiritual values and justice, in contrast to conventional finance, which is based on the maximization of individual utility, welfare and choice, as expressed for example in the shareholder value model. Islamic and conventional banks respond differently to financial shocks. Islamic banking is banking or banking activity that is consistent with the principles of Sharia law and its practical application through the development of Islamic economics. Islamic Shariah prohibits the fixed or floating payment or acceptance of specific interest or fees (known as riba, or usury) for the loan of money. Investing in businesses that provide goods or services considered contrary to Islamic principles is also Haram (sinful and prohibited). Although these principles have been applied in varying degrees by historical Islamic economies due to lack of Islamic practice, only in the late 20th century were a number of Islamic banks formed to apply these principles to private or semi-private commercial institutions within the Muslim community. Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of Shariah, known as Fiqh al-Muamalat. Amongst the common Islamic concepts used in Islamic banking are profit sharing (Mudarabah), safekeeping (Wadiah), joint venture (Musharaka), cost plus (Murabaha), and leasing (Ijara). (Uddin, 2014)

Shompa (2016) found that the performance of Al-Arefah 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-Arefah 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.

Uddin MR and Bristy JF (2014) found that all of the selected banks are in a position to make a sustainable growth in respect of branches, employees, deposits, loans and advances, classified loan, net income and earnings per share during the period of 2007-2011 with some fluctuation. Besides the growth pattern, other forms of calculations have been used for every selected variable and they are trend equation and square of correlation coefficient. Under trend equation analysis, the variables named branches, employees, deposits and net incomes hold more positive value than the other variables considered. As the value of the slope always shows the positive number, it is a clear indication that Bangladesh has a very good prospect in case of private commercial banks. Abdhu et al. (2013) observed that all Islamic banks have shown an improvement on their efficiency level with regard to banks’ efficiency. They showed that First Security Islami Bank is better in terms of efficiency.

Alkatib and Harsheh (2012) examined the financial performance of five Palestinian commercial banks using three indicators: Internal–based, Market-based and Economic–based performance measures. Return on Assets, Tobin’s Q model and Economic Value add methods have been used for measuring these three indicators. Correlation and multiple regression analysis have been applied in this study to analyze the influence of bank size, credit risk, operational efficiency and asset management on financial performance and to create a good-fit regression model to predict the future financial performance of these banks. As findings, the study has indicated that there is a significant impact of bank size, credit risk, operational efficiency and asset management on financial performance of Palestinian commercial banks. Sehrish et al. (2012) analyzed financial performance of Islamic banks and conventional banks in Pakistan over the period 2007-2011 using six financial ratios on eight banks found that Islamic banks are less risky in loan compare to conventional banks and less efficient in expenses management compared to conventional banks. Sangmi and Nazir (2010) evaluated the financial performance of the two major northern Indian banks using CAMEL Parameters. In this study the positions of these two banks have been highlighted as sound and satisfactory with respect to their capital adequacy, asset quality, management capability and liquidity.

Within the context of Bangladesh, Roy and Khan (2013) investigated the effect of overall service quality, product quality, and corporate social performance on reputation of private commercial banks. After the survey of eighty clients and employees of ten private commercial banks of Dhaka City area, the study applied correlation and stepwise regression to assess the hypothesis. The correlation analysis supported the entire hypotheses but the stepwise regression provided partial support. However, the study concluded that overall service quality, overall product quality, and corporate social performance are statistically and significantly correlated with bank reputation (Rahman et al., 2017).
Karim and Alam (2013) intended to measure the performance of five selected private banks. Financial ratios indicating the adequacy of the risk based capital, credit growth, credit concentration, non-performing loan position, liquidity gap analysis, liquidity ratio, return on assets (ROA), return on equity (ROE), net interest margin (NIM), etc. have been used. Internal-based, Market-based and Economic-based performance indicators have been measured by Return on Assets, Tobin’s Q model and Economic Value add. Employing multiple regression analysis they also attempted to apprehend the impact of bank size, credit risk, operational efficiency and asset management on financial performance and found that the impact is significant. It has also created a good-fit regression model to predict the future financial performance of the selected banks. Using secondary data for a period of 2005 to 2009 Almazari (2011) attempted to evaluate the financial performance of seven selected Jordanian commercial banks. The financial performance has been studied using financial variables and ratios and it found that higher total deposits, credits, assets, and shareholders’ equity of banks do not always infer better profitability or performance. Besides, simple regression has been applied to estimate the impact of bank size, asset management, and operational efficiency on financial performance (return on assets and interest income size) and the result showed a highly positive correlation (Sarker, 2016).

Akhtar et al. (2011) did comparative analysis of Islamic and conventional banks by focusing the importance of size of the firm, networking capital, return on equity, capital adequacy and return on asset with liquidity risk management. It is found that size of the banks and networking capital to net assets having positive but insignificant relationship with liquidity risk. While the capital adequacy in conventional banks and return on asset in Islamic banks had a positive and significant relationship with liquidity risk. Jaffar and Manarvi (2011) evaluated the performance of Islamic and conventional banks through CAMEL test during the period of 2005 to 2009. The sample of their research is 5 Islamic and 5 conventional banks. It is found that Islamic banks performed better and having high liquidity than the conventional banks, moreover it is realized that conventional banks have pioneer in the management and having a good earning ability.

For the period 2003-2004, Kosmidou and Zopounidis (2008) evaluated and rated the performance and efficiency of the commercial and cooperative banks in Greece. They found in this study that commercial banks are becoming more competitive and maximizing their profits by increasing their accounts, attracting more customers and improving their financial indices. But in case of the cooperative banks, it has been found that, some are enjoying considerably increased profits and market shares while financial indices have been found to be deteriorating for others.

Chowdhury and Islam (2007) stated that deposits and loan advances of Nationalized Commercial Banks (NCBs) are less sensitive to interest changes than those of Specialized Banks (SBs). So SBs should not make abrupt change in lending or deposit rates by following the NCBs. If NCBs change their lending or deposit rates, their deposits or loans and advances will be affected less than those of SBs. Moreover, deposits of NCBs have higher volume and higher volatility than those of SBs. On the other hand, loans advances of NCBs show a higher volume and higher volatility than those of SBs. However, SBs offer higher deposit rates and charge higher lending rates than NCBs. That is why the interest rate spread of SBs was higher than that of NCBs.

Jahangir, Shill and Haque (2007) stated that the traditional measure of profitability through stockholder’s equity is quite different in banking industry from any other sector of business, where loan-to-deposit ratio works as a very good indicator of banks’ profitability as it depicts the status of asset-liability management of banks. But banks’ risk is not only associated with this asset liability management but also related to growth opportunity. Smooth growth ensures higher future returns to holders and there lies the profitability which means not only current profits but future returns as well. So, market size and market concentration index along with return to equity and loan-to-deposit ratio grab the attention of analyzing the banks’ profitability.

METHODOLOGY

In this study, ratio analysis was used as an indicator to measure the performance. Al-Arafah Islami Bank Limited (AIBL) was selected for this case study because almost no research done on the performance analysis of this bank. The primary data were collected from different levels of officers and executives by face to face interview through structured interview schedule. The secondary data were collected from the annual reports of 2010 to 2014. The other published source like scientific journals, periodicals, books, magazines, papers and internet sources were also consulted for secondary data.

ANALYSIS OF THE STUDY

Credit Performance

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

Growth Rate of Total Credit

\[
\text{Growth Rate of Total Credit} = \frac{(\text{Current year} - \text{Previous year})}{\text{Previous year}} \times 100
\]
Table 1. Computation of Growth Rate of Total Credit of Al-Arafah Islami Bank Limited (Amount in %).

<table>
<thead>
<tr>
<th>Year</th>
<th>Total credit of respect year (Current year (Amount in Million))</th>
<th>Total credit of base year, 2010 (Amount in Million)</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>53582.96</td>
<td>53582.96</td>
<td>0.00</td>
</tr>
<tr>
<td>2011</td>
<td>77714.95</td>
<td>53582.96</td>
<td>45.04</td>
</tr>
<tr>
<td>2012</td>
<td>106650.42</td>
<td>53582.96</td>
<td>99.04</td>
</tr>
<tr>
<td>2013</td>
<td>125715.39</td>
<td>53582.96</td>
<td>134.62</td>
</tr>
<tr>
<td>2014</td>
<td>146740.36</td>
<td>53582.96</td>
<td>173.86</td>
</tr>
</tbody>
</table>

Source: Annual report, 2014

The higher the rate of credit to volume of working funds indicates the better for the organization. On the other hand it is more risky also. The average rate of credit to volume of working funds of Al-Arafah Islami Bank Limited was the higher in 2012, 2013 and 2014 which indicated better performance in that year.

Measurement of classified Investment to Total Investment

Classified Investment to Total Investment = \( \frac{(Total\ classified\ Investment)}{Total\ Investment} \times 100 \)

Table 3. Computation of classified investment to total investment of Al-Arafah Islami Bank Limited (Amount in %).

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>1.14</td>
<td>0.95</td>
<td>1.63</td>
<td>2.77</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: Annual report, 2014

The figure 1 shows that growth rate of Total credit shows the positive or negative tendency of people to collect their fund from the respective institutions. The higher the growth rate of total credits the best for the organization and its profitability. From the table mentioned above it was found that the highest growth rate of total credit showed in 2014. It is so good for the organization.

**Measurement of Credit to Volume of Working Fund**

Credit to Volume of Working Fund = \( \frac{(Current\ year - Previous\ year)}{Previous\ year} \times 100 \)

Table 2. Computation of Credit to Volume of Working Fund of Al-Arafah Islami Bank Limited (Amount in %).

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total investment (million)</td>
<td>53582.96</td>
<td>77714.95</td>
<td>106650</td>
<td>125715.39</td>
<td>146740.36</td>
</tr>
</tbody>
</table>

In the above figure indicated that the smaller the rate of classified investment to total Investment the better for the organization. The average rate of classified investment to total loan of Al-Arafah Islami Bank Limited is too much lower in 2010, 2011 and 2012 which indicated the best performance of the mentioned year.

**Measurement of Profitability**

We used the following techniques to measure the profitability of the bank.

**Return on Asset**

Return on Asset = \( \frac{Net\ Profit\ after\ Tax}{Total\ Asset\ Excluding\ Contra} \times 100 \)
The average return on asset ratio in 2010 was highest among the years. It is too much good for organization. But it is decreasing gradually; the institution should concentrate to improve the situation.

**Return on Equity**

\[
\text{Return on Equity} = \frac{\text{Gross profit}}{\text{Total equity}} \times 100
\]

**Table 5.** Computation of Return on Equity of Al-Arafah Islami Bank Limited (Amount in %).

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>20.01</td>
<td>18.34</td>
<td>13.85</td>
<td>14.15</td>
<td>12.8</td>
</tr>
</tbody>
</table>

Source: Annual report, 2014

The trend of the return on equity of the bank showed a decreasing trend. The management of the bank in similar trend should concentrate for improving the situation. Similar findings obtained by Sarker et al (2015) and Chowdhury et al (2015) for other banks.

**Measurement of Productivity**

The measurement of productivity is calculated by the following techniques:

**Deposit per Branch**

\[
\text{Deposit per Branch} = \frac{\text{Total Deposit}}{\text{Total No. of Branch}}
\]

**Table 6.** Computation of deposit per branch of Al-Arafah Islami Bank Limited (Amount in million Taka).

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Branch</td>
<td>78.00</td>
<td>88</td>
<td>100</td>
<td>110</td>
<td>119</td>
</tr>
<tr>
<td>Deposit in Mil BDT</td>
<td>690.81</td>
<td>933.94</td>
<td>1186.83</td>
<td>1281.64</td>
<td>1402.11</td>
</tr>
</tbody>
</table>

From the above table 6 indicated that the average deposit per branch ratio of Al-Arafah Islami Bank Limited was comparatively higher. It was good for organization. It also indicated lower uncertainty on return on asset.

**Profit per Branch**

\[
\text{Profit per Branch} = \frac{\text{Total Profit received on Investment}}{\text{Total No. of Branch}}
\]
Table 7. Computation of Interest or Profit per Branch of Al-Arafah Islami Bank Limited (Amount in million Taka).

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Branch</td>
<td>78</td>
<td>88</td>
<td>100</td>
<td>110</td>
<td>119</td>
</tr>
<tr>
<td>Profit per Branch</td>
<td>15.04</td>
<td>45.62</td>
<td>52.88</td>
<td>53.26</td>
<td>59.74</td>
</tr>
</tbody>
</table>

Source: Annual Report, 2014

From the above table 7 showed that the average profit per branch ratio of Al-Arafah Islami Bank Limited was relatively increasing trend. This trend indicated a good position of a bank. Similar findings obtained by Sarker et al. (2015) and Chowdhury et al. (2015) for other banks.

Measurement of Solvency

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:

Current Ratio

Current Ratio = \( \frac{\text{Total Current Asset}}{\text{Total Current Liabilities}} \)

Table 8. Computation of current ratio of Al-Arafah Islami Bank Limited.

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>2.41</td>
<td>2.57</td>
<td>1.88</td>
<td>1.63</td>
<td>1.52</td>
</tr>
</tbody>
</table>

Source: Annual Report, 2014

From the above table 8 it was found that, the average current ratio of Al-Arafah Islami Bank Limited showed decreasing trend. The bank should have tried to improve the situation. Similar findings found by Sarker et al. (2015) and Chowdhury et al. (2015) for other banks.

Quick Ratio

\[ \text{Quick Ratio} = \frac{\text{Total Quick Asset}}{\text{Total Current Liabilities}} \]

Table 9. Computation of quick ratio of Al-Arafah Islami Bank Limited (Amount in million Taka).

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quick ratio</td>
<td>4.62</td>
<td>0.11</td>
<td>0.07</td>
<td>0.06</td>
<td>0.10</td>
</tr>
</tbody>
</table>

Source: Annual Report, 2014

From the above table 9 it was found that the average quick ratio of Al-Arafah Islami Bank Limited was the highest in 2010. It was good for Al-Arafah Islami Bank Limited. The bank should maintain a stable trend of the quick ratio for sustainability. Similar findings obtained by Sarker et al 2015 and Chowdhury et al. (2015) for other banks.

Risk Measurement

Debt to Equity Ratio = \( \frac{\text{Total Debt}}{\text{Total Equity}} \)

Table 10. Computation of debt to equity ratio of Al-Arafah Islami Bank Limited (Amount in million Taka).

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt-equity ratio</td>
<td>6.12</td>
<td>7.91</td>
<td>9.63</td>
<td>9.76</td>
<td>10.59</td>
</tr>
</tbody>
</table>

Source: Annual Report, 2014

The trend of debt to equity ratio was not more favorable than previous performance. It showed a risk for this
institution. Chowdhury et al (2015) found that Islamic banks in Bangladesh have shown relatively better performance in terms of loan recovery as compared to its conventional banking.

RECOMMENDATIONS FOR POLICY IMPLICATION

The findings suggest following recommendations for overcoming the probable problems:

a) Islamic banks should increase the employment opportunities for the betterment of welfare of the society.

b) Islamic Banks should establish available branches all over the country especially for rural area to bring most of the rural people under banking.

c) Islamic banks should increase capital market and financial instruments.

d) Islamic banks should manage cost of information, control over cost of fund, mark-up financing, utilization of interest rate for fixing the profit margin in Murabahah sales, financing social concerns, enabling those who have no property, providing employment opportunities to all categories of people.

e) Islamic banks should demonstrate the impact of Islamic investment on the solution of the unemployment problem and assisting the state in confronting these ever increasing problems.

f) The cooperation among Islamic banks should be increased to disseminate the Islamic banking knowledge and interest free banking.

g) Islamic banks should be concentrated to finance to high-return projects and profitable sector.

h) The concentration should be increased to more favorable capital market investment & inter-bank money market.

i) Sources of income and expenditure area should be disclosed in the income statement to ensure that their income and expenditure were earned according to Shariah.

j) Zakat collection and distribution should be followed by Islamic manner so that poor can get benefit from it.

k) Attention should be given to minimize the risks associated with profitability.

l) Al-Arafah Islami Bank Limited should try to raise the more deposit ratio for carrying higher productivity in future.

m) The risk bearing indicators of bank like return on equity should be maintained properly.

CONCLUSION

Al-Arafah Islamic Bank Limited (AIBL) is conducting their business following Islamic Shariah (law). It is trying to avoid interest in any of its operation. Various financial ratio analyses show that AIBL get a better position on the basis of its performance. The bank should be sincere to collect deposit and lending money and increased the number of financial products. The findings suggest that cost of fund, markup financing, fixing profit margin, Zakat distribution should be based on Islamic Shariah properly for the betterment of the society. This study also suggests that AIBL should have to increase investment in the capital market and to increase the number of financial instruments. Not only AIBL but also other Islamic banks are facing various difficulties especially for Shariah compliance to their every operation due to un-Islamic structure of capital market. If the Islamic banks follow the recommendation properly and central bank can take initiative for maintaining the Islamic financial instruments properly, they will be the ideal organizations in the financial market as well as in the society. This study complements other studies which discuss about performance and efficiency in Islamic banks, particularly in the case of Bangladesh.

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