Sonargaon University



Thesis paper
On
Financial Strength Analysis of Banking Sector of Bangladesh : A Comparative Study of Islamic Banks

Submitted by
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Submitted to
Department of Business Administration
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Master of Business Administration

Date of Submission : 07 January, 2025

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SONARGAON UNIVERSITY (SU)

Letter of Transmittal

7 January, 2025
To
Supervisor

Dr.Md. Masud Rana
Associate Professor
Head of the Department Of Business Administration (DBA)
Sonargaon University (SU)

Subject: Submission of Thesis Report on "Financial Strength Analysis of Banking Sector of Bangladesh:A Comparative Study of Islamic Banks".

Sir,

With due respect and utmost veneration, it is my pleasure for having an opportunity to submit the Thesis Report on **"Financial Strength Analysis of Banking Sector of Bangladesh:A Comparative Study of Islamic Banks ".**

I highly appreciate the co-operation that I have received in this regard. I put my highest endeavour to gather relevant information in line with my Thesis proposal and drew it on this report and will enlighten my gaps with your May I, sincerely pray and hope that you will consider my limitations and mistakes regarding drafting this thesis report constructive remarks and thus oblige me thereby.

Yours Sincerely

_____

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Declaration of Student

This is to notify that the Thesis report on **"Financial Strength Analysis of Banking Sector of Bangladesh: A Comparative Study of Islamic Banks"** has been prepared as a part of my Thesis formalities. It is an obligatory part for my MBA program to submit an Thesis report. Moreover, I was inspired and instructed by my supervisor Dr. Md. Masud Rana, Associate Professor, Dept. of Business administration, Sonargaon University. I am further declaring that I did not submit this report anywhere for awarding any degree, diploma or certificate.

.....

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Letter of Authorization

Certified that this Thesis report titled on **"Financial Strength Analysis of Banking Sector of Bangladesh: A Comparative Study of Islamic Banks** " is a bonafide work of Sabrina Binte Amir Munni , who carried out the research under my supervision. Certified further that to the best of my knowledge the work reported here does not form part of any other report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

.....

Dr.Md. Masud Rana
Associate Professor
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Acknowledgement

In the beginning I would like to express my gratefulness to the almighty God who has given me the opportunity to go through the whole procedures of Thesis and to write a report in this regard successfully.

At first, I would like to acknowledge my heartiest gratitude to the Honorable Faculty Md.Masud Rana, Associate professor of Business Administration,Sonargaon University, who has given me full support, ideas and constant supervision throughout the semester for preparing this report. I am thankful to his for how he guided to me with his extreme consistency I every aspect to make their report a successful one .

I would like to extend my appreciation to my friends for their support and feedback during the course of this thesis.Their suggestions and encouragement have been invaluable.

Finally, I convey my heartfelt thanks to my parents forth discontinuous support both financially and emotionally throughout my under graduate program at Sonargaon University.

Preface

The banking sector is vital to Bangladesh's economic development, with Islamic banks playing an increasingly significant role. This thesis, "Financial Strength Analysis of the Banking Sector of Bangladesh: A Comparative Study of Islamic Banks," aims to assess the financial performance of Islamic banks in comparison to conventional banks, focusing on key financial indicators.

As part of my Masters of Business Administration at Sonargaon University (SU), this research bridges academic theory and practical analysis. Although I have made every effort to ensure accuracy, I acknowledge that some limitations may exist. I tried my best to collect relevant and significant data as much as possible and prepare the thesis with my best effort. I regret for any undue mistakes in this thesis. If the thesis do little support to any student, teacher, researcher or analyst, I may consider my effort does not go in vain.

Abstract

This study aims to analysis the financial strength of scheduled Islamic banks in Bangladesh, with a focus on a comprehensive financial analysis. The research is descriptive in nature and adopts an inductive approach using cross-sectional data to calculate, identify, and assess the financial stability of Islamic banks in the country. Financial performance is examined across several key indicators, including capital adequacy ratio, profitability ratios, market ratios, and value-added metrics, to evaluate internal, market-based, and economic performance.

The analysis ranks banks based on their financial results from 2021 to 2023, with Islami bank Bangladesh limited emerging as one of the leading institutions. The study highlights that one banks exhibit weak economic efficiency, negative economic value added (EVA), and undervalued market share prices. The research primarily covers four Islamic banking institutions in Bangladesh, which raises questions regarding the generalization of the findings. Given that many corporate entities also utilize financial strength analysis, the study's results offer valuable insights for bank management and potential investors. Furthermore, the findings can serve as a useful resource for policymakers in Bangladesh, providing guidance on the overall health and stability of the Islamic banking sector.

Keywords: Analysis of Financial strength; Banking Sector; Cross-Sectional Data Financial Analysis; Economic Added Value; listed islamic Bank between 2021 and 2023 .

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Chapter 1: Introduction

1.1 Introduction:

The financial strength of a banking sector is a critical factor in determining the stability and sustainability of an economy. In particular, Islamic banks, which operate under the principles of Islamic finance, have garnered significant attention globally due to their unique approach to financial management and their rapid growth, especially in countries with significant Muslim populations. Bangladesh, with a burgeoning Islamic banking sector, presents an ideal context for studying the financial strength of these institutions. This study focuses on a comparative analysis of the financial strength of Islamic banks in Bangladesh, providing insights into their performance, stability, and competitiveness within the broader banking industry.

Islamic banks differ fundamentally from conventional banks in their operational framework, as they are governed by Shariah law. This law prohibits earning interest (riba), encourages risk-sharing, and mandates ethical investments. Despite their growing presence and importance, assessing the financial strength of Islamic banks presents unique challenges, as their performance metrics differ from traditional banking models. Therefore, it is essential to evaluate their financial strength using a variety of indicators, including capital adequacy, profitability, asset quality, market performance, and economic efficiency. These measures are crucial for stakeholders, including regulators, investors, and customers, to understand the viability and robustness of Islamic banks.

The objective of this study is to conduct a comparative analysis of the financial strength of selected Islamic banks in Bangladesh, focusing on key performance indicators (KPIs) such as the Capital Adequacy Ratio (CAR), Return on Assets (ROA), Return on Equity (ROE), Profit Margin, and the Economic Value Added (EVA). By comparing these financial metrics, this study aims to uncover the relative strengths and weaknesses of individual Islamic banks and provide a holistic understanding of their financial health.

In addition, the study will explore the impact of external factors, such as regulatory policies and market conditions, on the performance of Islamic banks in Bangladesh. A

deep understanding of these factors will help policymakers, financial analysts, and bank managers formulate strategies that enhance the financial stability of Islamic banks while promoting sustainable growth within the industry.

To achieve these objectives, the research will adopt a quantitative approach using cross-sectional data from 2021 to 2023. The selected banks will be assessed based on their financial statements, annual reports, and other publicly available data. The findings of this study are expected to contribute valuable insights into the financial performance of Islamic banks in Bangladesh and inform decision-making for both investors and policymakers.\

1.2 Objective of the report:

The objective of this thesis is to conduct a comparative financial strength analysis of Islamic banks in Bangladesh. The study aims to evaluate the financial performance of selected Islamic banks by examining key indicators such as Capital Adequacy Ratio (CAR), profitability ratios, liquidity, and Economic Value Added (EVA). By comparing the financial strength of these banks over the period from 2021 to 2023, the thesis seeks to identify the relative strengths and weaknesses in their financial performance. Additionally, the study will investigate the impact of external factors, including regulatory policies and market conditions, on the performance of Islamic banks in Bangladesh. Based on these findings, the research will offer actionable recommendations to enhance the financial stability and growth prospects of these institutions. Furthermore, the study aims to contribute to the academic literature on Islamic banking, providing valuable insights for policymakers, bank management, and investors, thereby supporting informed decision-making and fostering further development in the sector.

1.3 Scope of the Study:

The scope of this study is focused on evaluating and comparing the financial strength of Islamic banks in Bangladesh, with a particular emphasis on the period from 2021 to 2023. The research is geographically limited to Islamic banks operating within Bangladesh, encompassing both public and private sector institutions that are regulated by the country's financial authorities. The study includes a selection of

prominent Islamic banks, chosen based on their market presence, financial stability, and availability of comprehensive financial data. The analysis centers on key financial indicators such as Capital Adequacy Ratio (CAR), Return on Assets (ROA), Return on Equity (ROE), profitability ratios, and Economic Value Added (EVA), which collectively provide a thorough understanding of each bank's financial health and operational efficiency. Additionally, the study explores the impact of external factors, including regulatory policies and macroeconomic conditions, on the performance of Islamic banks. The research adopts a quantitative methodology, utilizing secondary data such as annual reports and financial statements to conduct the comparative analysis. While the primary focus is on the financial performance of Islamic banks, the study does not address non-financial aspects like customer satisfaction, governance, or operational strategies. The findings are limited to the banks included in the study and may not be fully generalize to the broader banking sector in Bangladesh, particularly in the context of non-Islamic financial institutions. Through these boundaries, the study aims to provide a comprehensive and focused analysis that offers valuable insights into the financial strength of Islamic banks in Bangladesh, contributing to both academic literature and practical decision-making for stakeholders.

1.4 Methodology of the study:

The analysis here is a descriptive and related form. This thesis has adopted an inductive approach to science. This analytical analysis was based primarily on objective secondary data from the released annual report from 2021 to2023 on the respective four Islamic Bank website. Another type of this study, as a reference time in research, is cross-sectional. The use of cross-sectional data has some pitfalls, said Bowen, Wiersema. It helps to analyze the banks' results quite well, in any case.

The secondary information was obtained using the data collection sheet from the end of 2021 to 2023. Descriptive analyzes are carried out for the review of the Bank's financial results. The information was edited, coded, and cleaned (if required). The benefits of this study inspired the selection of FRA methods. Due to its advantages, the FRA solution was chosen. The FRA is mainly entitled to distinguish between high-performance banks and other banks and compensate for the differences and controls that Samad's economic variables have on any side effects. The financial ratio

can also define a bank's particular strengths and weaknesses and provide quantitative information on the Bank's benefit, liquidity, and credit quality policy.

The final ranking of the four banks selected as a sample was based on internal market-based performance and economic performance, respectively, and a separate ranking was given for each of the parameters listed above. Non-parametric research, the coefficient of correlation of rank, was used to test the hypotheses. The hypothesis test's object is to assess whether the correlation coefficients between the measurements are relevant. According to Levin & Rubin, the option to use a rank correlation coefficient has certain benefits over a parametric correlation coefficient (Levin & Rubin, 2007). Firstly, it does not recognize whether the data are usually distributed; secondly, it is less susceptible to extreme data collection values. Finally, we do not need to count the sample size below thirty for this analysis.

The present study has ensured the quality of analysis by concentrating on the results' validity and reliability. The study's financial and quantitative aspects are focused on the applicable financial measures that are acceptable for answering the research question. ROA, ROI, ROE are profitability indicators used to measure internal efficiency. Similarly, EPS for market metrics, and EVA, MVA, Market Capitalization for value-added metrics were used to measure market-based and economic efficiency, respectively. By integrating the profitability ratio, the market ratio, and the value-added metrics, the goal is to gain insight into the respective banks' success. The problem of reliability concerns the accuracy of the study results. To be accurate, other researchers should be able to reproduce it and achieve the same result. The research used data from public records, the banks website. This means that if others were able to analyze the data, they would have the same results.

1.5 Limitations of the Study:

Interviews by workers from banks were not feasible, and thus the internal output of the Bank could not be measured. The data of 4 banks for three years were included in the study. Improve the validity of the study by increasing the sample size. Because only secondary information sources are used, the accuracy of the information depends entirely on the secondary data's accuracy.Some data was missing like .They did not publish the some data of annual report, so the calculation for that Bank was based on three years data only.

Chapter 2

Introduction about Banking Industry in Bangladesh

2.1 Banking Industry in Bangladesh :

Bangladesh's banking sector is characterized by a mix of nationalized, private, and foreign commercial banks. After the country's independence, the banking industry began to take shape with the establishment of six nationalized banks, two state-owned specialized banks, and three foreign banks. The entry of private banks in the 1980s contributed to significant growth in the sector. Today, the banking landscape in Bangladesh primarily consists of two main types of banks.

Scheduled Banks

The banks approved to operate in compliance with the Bank Company Law of 1991 are named Scheduled Banks. The following forms are listed as scheduled banks:

State-Owned Commercial Banks (SOCBs): The Government of Bangladesh has six SOCBs, wholly or principally.

Specialized Banks (SDBs): There are currently three specialized banks developed for specific purposes, such as agricultural or industrial development. These banks also belong to the Government of Bangladesh in whole or in large part.

Private Commercial Banks (PCBs): Private commercial banks are mostly private. There are 42 private business banks. In two classes, PCBs can be classified:

Conventional PCBs: There are now 34 typical PCBs in the market. In traditional mode, they execute banking functions, i.e., interest-based activities.

Shariah-based Islamic PCBs: there are eight shariah-based Islamic shariah PCBs in Bangladesh, which run according to Islamic Shariah principles, such as the profit-sharing (PLS) model.

Foreign Commercial Banks (FCBs): 9 FCBs operate in Bangladesh as branches of the foreign banks. FCBs are the branches of foreign banks. There are 60 scheduled banks in Bangladesh, functioning under the complete supervision and control of the Bangladesh Bank, entitled to that by Bangladesh Bank Order of 1972 and Bank Society Law of 1991.

Non-scheduled Banks: Banks designed for unique and unusual purposes and working underacts to accomplish these goals are referred to as non-scheduled banks. These banks cannot fulfill all scheduled banks' functions. In Bangladesh, five unregistered banks, the Ansar VDP Unnayan Bank, Karmashangosthan Bank, Grameen Bank, Palli Sanchay Bank, and Jubilee Bank, are now operating in the market.

2.2 Information About the Selected Banks:

Al-Arafah Islami Bank PLC : Al-Arafah Islami Bank PLC is one of the prominent Islamic banks in Bangladesh, established in 1995 with the aim of providing Shariah-compliant financial services. The bank operates under Islamic principles, offering a range of banking products and services, including deposit accounts, financing, and investment solutions, all in adherence to the rules of Islamic finance. With a strong network of branches across the country, Al-Arafah Islami Bank has become a key player in Bangladesh's Islamic banking sector, focusing on promoting economic growth, financial inclusion, and ethical business practices. The bank's commitment to customer satisfaction, innovation, and financial stability has helped it maintain a significant presence in the competitive banking industry of Bangladesh.

Islamic Bank Bangladesh PLC : Islamic Bank Bangladesh PLC (IBBL) is one of the leading private-sector Islamic banks in Bangladesh, founded in 1983. It was the first bank in the country to operate on Islamic principles, offering a range of Shariah-compliant financial products and services, including savings accounts, loans, and investment options. IBBL has built a strong reputation for promoting ethical banking practices, financial inclusion, and economic development. With a vast network of branches across the country, the bank serves a diverse customer base, combining modern banking technology with traditional Islamic values to meet the growing demand for Islamic financial services in Bangladesh.

First security islami bank PLC : First Security Islami Bank PLC (FSIBL) is a leading private-sector Islamic bank in Bangladesh, established in 1999 with the vision of providing Shariah-compliant financial services to its customers. As a pioneer in the

Islamic banking industry, FSIBL offers a wide range of banking solutions, including savings and current accounts, term deposits, home and car financing, trade finance, and investment services, all based on Islamic principles. The bank operates under strict adherence to Islamic laws, ensuring that all its transactions are free from interest (riba) and based on ethical business practices.

FSIBL has an extensive network of branches and ATM s across Bangladesh, making its services accessible to a broad customer base. The bank's customer-centrality approach, combined with modern banking technology, has helped it build a strong reputation for reliability and innovation. In addition to its financial products, FSIBL places significant emphasis on corporate social responsibility (CSR), engaging in various community development programs and contributing to the country's economic growth.

With a focus on sustainability, financial inclusion, and ethical practices, FSIBL continues to play an important role in Bangladesh's Islamic banking sector, offering solutions tailored to meet the needs of both individual and corporate customers.

Shahjalal Islami Bank PLC : Shahjalal Islami Bank PLC is a prominent private-sector Islamic bank in Bangladesh, established in 2001. The bank offers a wide range of Shariah-compliant financial services, including savings and deposit accounts, financing solutions, and investment products, all adhering to Islamic principles. With a strong network of branches across the country, Shahjalal Islami Bank is known for its commitment to ethical banking practices, customer satisfaction, and financial inclusion. The bank plays a significant role in Bangladesh's Islamic banking sector, contributing to economic growth while promoting social responsibility.

Chapter 3

Theoretical Overview

Analyzing financial strength through metrics like ROI (Return on Investment), ROA (Return on Assets), ROE (Return on Equity), EVA (Economic Value Added), MVA (Market Value Added), and Capital Adequacy provides a structured approach to understanding how these metrics relate to various financial theories and how they explain financial performance, stability, and value creation. This framework will guide the analysis by anchoring it in established financial and economic theories.

3.1Theoretical Framework for Financial Strength Metrics :

Return on Investment (ROI) : ROI measures the efficiency of an investment relative to its cost. The higher the ROI, the better the firm is at generating profit from its investments.n this theory, ROI is critical for evaluating how well capital is being allocated to generate returns. A high ROI suggests that management is making sound investment decisions that enhance financial strength.ROI is calculated:

ROI=EAT/ (Average Equity)

Return on Assets (ROA) : ROA measures how efficiently a company or bank is using its total assets to generate profit. It is a key indicator of operational efficiency.A formula can be determined:

ROA=EBIT/ (Average Assets)

This report used the profit and loss account and balance sheet as the net sales and total asset estimates. However, the average sum of assets is used in the estimation of ROA to replace total assets. The organization uses its money more efficiently with a higher ROA. Under the BaselII agreement, ROA is estimated to be over 1%.

Return on Equity (ROE) :ROE evaluates how effectively a firm is using shareholders' equity to generate profits. It is a critical metric for assessing shareholder value creation**.**The higher value of this ratio is, the more profitable it is. Like ROA, this ratio is a management performance measure. The return on equity, according to Kieso, is calculated with the division by average equity stockholder of net income less preferred dividend. The higher ROE value is a symbol of high equity efficiency.

Earnings per Share (EPS): Earnings per share reflect the profits of each share of the business. The formula below is used:

Earnings per Share= (Profit After Tax)/ (Weighted Average Number of Share Outstanding).

Capital Adequacy : Capital Adequacy measures the amount of capital a bank has to cover potential losses, ensuring that it can absorb shocks and continue to operate.Capital adequacy ratios (such as those set by the Basel Accords) ensure that banks have enough capital to absorb financial losses. Strong capital adequacy is essential for maintaining stability and financial strength, especially in times of economic stress.

Capital Adequacy Ratio (CAR) = $\frac{\text{Tier 1 Capital+Tier 2 Capital}}{\text{Risk Weighted Assets (RWA)}} \times 100$

3.2 Modern Value-based Performance Measures :

Value Added Statement: The value-added statement reflects the wealth generated by banking services, representing the excess of the costs incurred in offering these services over the revenue they generate. It shows how the overall wealth created is distributed, detailing how different stakeholders, such as employees, shareholders, and the government, are compensated. Additionally, it highlights the portion of value that is retained within the bank for reinvestment, ensuring its continued operations and future growth.

Economic Value Added (EVA) : EVA measures the economic profit of a firm, which is the value created above the required return on capital. It is used to assess whether a company is generating value in excess of its capital costs. EVA is based on the idea that true profitability occurs when a firm generates income above its cost of capital. Positive EVA indicates that a company is creating value, thereby improving its financial strength.

EVA=Net Operating Profit After Taxes (NOPAT)−(Capital×Cost of Capital)

Market Value Added (MVA): MVA is the difference between the market value of a company and the capital invested by its shareholders. It measures the wealth created for shareholders over time. MVA directly reflects how well management is creating value for shareholders. It aligns with the idea that firms should focus on maximizing shareholder value, which is a core component of financial strength.

Chapter 4

Financial strength analysis of Islamic Banks in Bangladesh

4.1 Financial strength analysis of Return on Equity for 2021-2023: In this analysis, we will compare the Return on Equity (ROE) for four major Islamic banks in Bangladesh over three years (2021–2023). ROE is a key indicator of financial strength, showing how effectively a bank is using shareholders' equity to generate profits. A higher ROE suggests stronger financial performance.

1.Al-Arafah Islami Bank:

Year	. 2023	2022	2021
ROE	8.89 %	8.13%	8.21%

The ROE for Al-Arafah Islami Bank has remained relatively stable, with a slight dip in 2022, followed by a modest increase in 2023. The ROE hovering around 8% shows moderate financial strength, but the small year-on-year fluctuations indicate that the bank's profitability has not seen significant improvement or deterioration. Stability in ROE is a positive sign, but it also indicates a need for more aggressive growth strategies to enhance profitability.

2. Islami Bank Bangladesh Limited (IBBL):

Year	2023	2022	2021
ROE	8.77%	8.67%	7.19%

Islami Bank's ROE has steadily improved over the last three years, from 7.19% in 2021 to 8.77% in 2023. The consistent improvement in ROE reflects growing profitability and stronger financial management. This upward trend is a positive indicator of the bank's financial strength, showing that it is better utilizing shareholders' equity to generate profits over time.

3. First Security Islami Bank :

YEAR	2023	2022	2021
ROE	17.18%	17.62%	20.84%

First Security Islami Bank has the highest ROE among the four banks, although it has been declining from 20.84% in 2021 to 17.18% in 2023. Despite the decline, First Security Islami Bank still demonstrates exceptionally strong financial performance

with an ROE above 17%. The decrease, however, suggests that the bank's ability to generate returns from equity has slightly weakened, and there may be concerns about sustaining its high profitability in the future. Nonetheless, it remains financially robust.

4. Shahjalal Islami Bank:

YEAR	2023	2022	2021
ROE	15.89%	16.92%	13.70%

Shahjalal Islami Bank has shown a general improvement in ROE from 13.70% in 2021 to a peak of 16.92% in 2022, followed by a slight decline to 15.89% in 2023. The high ROE (above 15%) indicates strong financial performance, although the small drop in 2023 may suggest challenges in maintaining this growth. Nonetheless, Shahjalal Islami Bank remains financially solid and is one of the better-performing banks in terms of ROE.

a.Comparison of Financial Strength Based on ROE:

1..First Security Islami Bank has the highest ROE throughout the period (though declining), indicating the strongest financial performance in terms of profitability from equity. Its ROE remains significantly higher than the other three banks, reflecting better management of shareholder funds.

2.Shahjalal Islami Bank is the second-best performer, with a solid and stable ROE around 15-17%. While there was a slight decline in 2023, it still shows robust financial strength.

3. Islami Bank Bangladesh Limited (IBBL) shows consistent improvement in its ROE, moving from 7.19% in 2021 to 8.77% in 2023. This positive trend indicates growing financial strength, although its ROE remains lower than First Security and Shahjalal Islami Bank.

4. Al-Arafah Islami Bank has the lowest ROE in the group, with little change over the three years, indicating stable but not strong financial performance. Its ROE around 8% suggests moderate profitability, but the bank lags behind its peers in generating returns from equity.

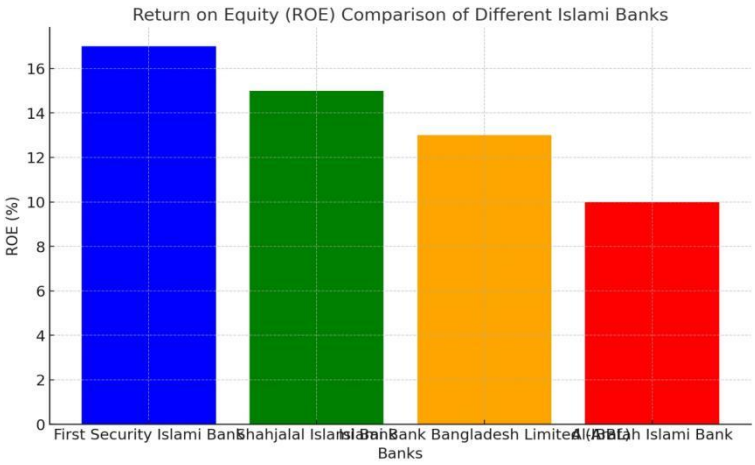
b. Overall Financial Strength Ranking (Based on ROE)**:**

1. First Security Islami Bank: Despite a downward trend, its consistently high ROE (above 17%) indicates superior financial strength.

2. Shahjalal Islami Bank: Strong and stable ROE above 15% reflects good financial management.

3. Islami Bank Bangladesh Limited (IBBL): Steady improvement shows growing financial strength, but ROE remains lower than the top two.

4. Al-Arafah Islami Bank: Stable but relatively low ROE indicates moderate financial performance and the need for improved profitability.



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4.2 Financial strength analysis of Return on Assets for 2021-2023: From appendix **1 .Al-Arafah Islami Bank'**s ROA has shown a slight decline, from 0.46% in 2021 to 0.39% in 2022, with a modest improvement to 0.41% in 2023. While the decline in 2022 might raise concerns, the marginal increase in 2023 indicates that the bank is improving its asset efficiency. However, its relatively low ROA suggests that Al-Arafah Islami Bank is not maximizing its asset base as effectively as its peers.

2. Islami Bank Bangladesh Limited (IBBL) has shown a consistent but minimal increase in ROA from 0.30% in 2021 to 0.34% in 2022, and 0.32% in 2023. The decrease in 2023 may indicate a slight dip in asset utilization efficiency compared to the prior year. IBBL's ROA remains lower than that of its competitors. Although the bank has shown growth over the years, its relatively low and slightly declining ROA suggests there is room for improvement in asset efficiency, which may affect its overall financial strength.

3. First Security Islami Bank has seen a consistent decline in ROA from 0.64% in 2021 to 0.51% in both 2022 and 2023. Despite the decline, First Security Islami Bank still has the second-highest ROA among the banks analyzed. However, the steady decrease in ROA raises concerns about the bank's ability to maintain or improve asset

utilization efficiency. A declining ROA could be a sign of reduced operational effectiveness or an expansion of less profitable assets.

4. Shahjalal Islami Bank has shown a strong improvement in its ROA, increasing from 0.85% in 2021 to 1.08% in 2022, and maintaining a similar level of 1.05% in 2023. Shahjalal Islami Bank stands out with the highest ROA of all four banks. The strong ROA growth reflects efficient use of assets, and the bank is highly effective in generating profit from its asset base. This indicates robust financial strength and superior asset management compared to the other banks.

a .Comparison of Financial Strength Based on ROA:

1. Shahjalal Islami Bank: With the highest and stable ROA, Shahjalal Islami Bank shows the strongest financial strength in terms of asset utilization. Its consistent improvement in ROA reflects excellent operational efficiency and profitability, making it the most efficient among the banks analyzed.
2. First Security Islami Bank: Despite a decline in ROA over the past two years, First Security Islami Bank still demonstrates a relatively high ROA. However, the steady decline is a concern, as it may indicate diminishing returns from its asset base, which could impact future financial strength.
3. Al-Arafah Islami Bank: Although it has shown some improvement in 2023, Al-Arafah Islami Bank's ROA remains low compared to its peers. This indicates that the bank is less efficient in utilizing its assets to generate profits, suggesting a need for strategic improvements in asset management to strengthen its financial position.
4. Islami Bank Bangladesh Limited (IBBL): IBBL's ROA is the lowest among the four, despite a slight improvement over the past three years. The bank's relatively poor asset utilization indicates potential challenges in improving its financial strength and may require attention to improve operational efficiency.

b. Overall Financial Strength Ranking (Based on ROA):

1. Shahjalal Islami Bank: The bank's ability to generate the highest returns from its assets reflects strong financial performance and operational efficiency.
2. First Security Islami Bank: Despite a decline in ROA, it still maintains a relatively strong position with efficient asset utilization, though it is showing signs of weakening performance.
3. Al-Arafah Islami Bank: While improving slightly, its relatively low ROA indicates moderate asset utilization, and it lags behind the others in terms of financial strength.

4. Islami Bank Bangladesh Limited (IBBL): IBBL's consistently low ROA suggests weaker financial strength compared to the other banks, indicating inefficiency in asset management.

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4.3 Financial strength analysis of Return on investment for 2021-2023: From appendix 1 Al-Arafah Islami Bank's ROI has shown a slight decrease from 0.45% in 2021 to 0.39% in 2022, followed by a marginal increase to 0.41% in 2023. Although the ROI shows a small recovery in 2023, it remains relatively low. This suggests that Al-Arafah Islami Bank is not making the most efficient use of its investment capital when compared to its peers. The low ROI indicates moderate financial strength, but it could improve with better capital management. Islami Bank Bangladesh Limited (IBBL) shows a steady improvement in ROI, increasing from 6.32% in 2021 to 6.39% in 2022, and then further rising to 6.76% in 2023. IBBL demonstrates strong financial performance with consistently rising ROI. This growth in ROI reflects the bank's ability to generate better returns from its investments, highlighting strong financial strength and capital efficiency. IBBL outperforms the other banks in terms of ROI.First Security Islami Bank shows a significant improvement in ROI over the three years, from 1.51% in 2021 to 2.87% in 2022, and 3.52% in 2023. The sharp increase in ROI indicates that First Security Islami Bank has been improving its investment efficiency. However, despite the impressive growth, it still lags behind IBBL in terms of ROI. The bank's financial strength is improving, but it still needs to increase ROI further to match the stronger performers.Shahjalal Islami Bank shows consistent growth in ROI, from 3.46% in 2021 to 4.63% in 2022, and 4.89% in 2023. Shahjalal Islami Bank demonstrates strong and steady improvement in ROI, making it the second-best performer in terms of ROI after IBBL. This growth reflects good capital utilization and strong financial management, positioning it as one of the top-performing banks in terms of investment efficiency.

a.Comparison of Financial Strength Based on ROI:

1. Islami Bank Bangladesh Limited (IBBL): IBBL has the highest ROI among the banks, showing a consistent and strong ability to generate returns from its investments. This suggests superior financial strength and efficient capital utilization.

2. Shahjalal Islami Bank: Shahjalal Islami Bank follows closely behind IBBL, with consistent improvement in ROI. Its strong ROI reflects good financial management and efficient investment strategies, making it a strong performer.

3. First Security Islami Bank: Although First Security Islami Bank shows a significant increase in ROI over the years, it still lags behind IBBL and Shahjalal Islami Bank. The growing trend is promising, but it has room to improve further.
4. Al-Arafah Islami Bank: Al-Arafah Islami Bank has the lowest ROI among the four banks, with a relatively stagnant and low return on investments. This indicates that the bank could improve its capital utilization and efficiency to strengthen its financial position.
b.Overall Financial Strength Ranking (Based on ROI):
1. Islami Bank Bangladesh Limited (IBBL): With the highest and steadily increasing ROI, IBBL exhibits the strongest financial strength in terms of investment returns.
2. Shahjalal Islami Bank: Consistent growth in ROI positions Shahjalal Islami Bank as a strong performer, with high investment efficiency.
3. First Security Islami Bank: The sharp growth in ROI is promising, but the bank still has some distance to cover to catch up with IBBL and Shahjalal Islami Bank.
4. Al-Arafah Islami Bank: Al-Arafah Islami Bank's low and stagnating ROI indicates weaker financial strength, and it lags behind the other banks in terms of investment returns.

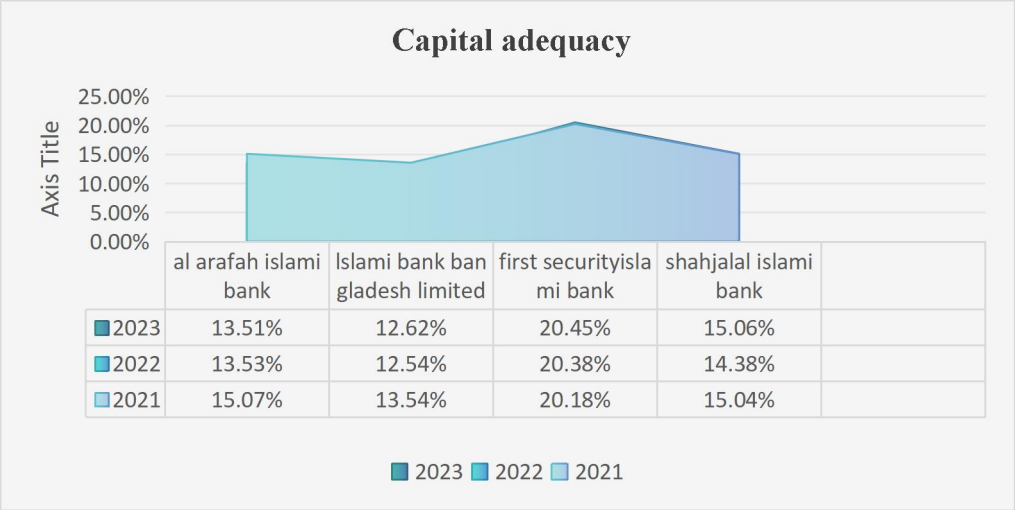
4.4 Financial strength analysis of Earning per share for 2021-2023 : From appendix 2 ,the column of earning per share Al Arafah's Islamic bank EPS has increased from 1.96 in 2021 to 2.14 in 2023, showing a positive growth of 9.18%. However, this growth rate is relatively modest compared to other banks in the comparison. Islami Bank has shown a strong growth in EPS from 2.88 in 2021 to 3.80 in 2023, which is a 31.25% increase over the three years. This is a notable improvement, indicating that the bank is becoming more profitable and its earnings are growing at a strong pace.First Security Islamic Bank's EPS has declined from 3.20 in 2021 to 2.85 in 2023, a decrease of 10.94%. This suggests that the bank's profitability has decreased over the past three years, which could indicate challenges in generating earnings or a decline in overall performance. Shahjalal Islamic Bank has shown a solid growth in EPS from 2.39 in 2021 to 3.26 in 2023, marking an increase of 36.56%. This is the highest growth among the banks compared here, reflecting a strong improvement in its financial performance.

4.5 Financial strength analysis of MVA for 2021-2023 : From appendix 2 Al-Arafah Islamic Bank experienced a recovery in 2023, showing a modest increase in MVA compared to 2022. However, the 2021 MVA was significantly higher than both 2022 and 2023, indicating that the bank lost significant market value in 2022 and has been trying to recover .Islami Bank Bangladesh Limited shows a consistent and strong upward trend in its MVA over the three years. The substantial increase from 2021 to 2023 reflects the bank's solid financial strength and its ability to create increasing value for its shareholders year by year. First Security Islami Bank has a heavily negative MVA, showing a worsening trend from 2021 to 2023.This indicates significant destruction of value and suggests that the bank is facing severe financial difficulties. The growing negative MVA signals a lack of investor confidence and likely challenges in profitability and performance. Shahjalal Islami Bank's MVA has been declining over the three years, though it remains positive. The slight decline in 2023 compared to 2022 suggests a reduction in market value, but the bank is still creating value for its shareholders, albeit at a decreasing rate.

4.6 Financial strength analysis of EVA for 2021-2023 : From appendix 2 Al-Arafah Islamic Bank's EVA slightly declined in 2023 compared to 2022, indicating a decrease in the economic value generated. However, the EVA for 2023 is still higher than 2021, suggesting overall improvement in profitability over the three years despite the recent dip. Islami Bank Bangladesh Limited shows consistently high EVA, with a slight decrease in 2023 compared to 2022. Nonetheless, its EVA growth from 2021 to 2023 demonstrates strong profitability and value creation, with the bank clearly exceeding its cost of capital by a large margin. First Security Islami Bank shows modest but steady growth in EVA, indicating that while the bank is adding economic value, it is doing so at a much slower pace compared to its peers. The positive trend suggests the bank is gradually improving its financial position, but it remains weaker in terms of profitability and value generation compared to the larger banks. Shahjalal Islami Bank shows significant improvement in EVA over the three years, with strong growth from 2021 to 2023. The increasing EVA demonstrates robust financial strength and indicates that the bank is generating more value over time relative to its capital costs..\

4.7 Financial strength analysis of capital adequacy of Islamic banks for 2021-2023 : The Capital Adequacy Ratio (CAR) is a key measure of a bank's financial strength. It indicates the bank's ability to absorb potential losses, protect depositors,

and promote stability. The ratio is calculated by comparing a bank's capital to its risk-weighted assets, with a higher ratio indicating better financial health and risk management. Let's analyze the four banks based on their CAR over the period from 2021 to 2023.



	al arafah islami bank	Islami bank bangladesh limited	first securityislami bank	shahjalal islami bank
2023	13.51%	12.62%	20.45%	15.06%
2022	13.53%	12.54%	20.38%	14.38%
2021	15.07%	13.54%	20.18%	15.04%

Al-Arafah Islamic Bank has maintained a relatively stable CAR, but there has been a slight decline over the years, from 15.07% in 2021 to 13.51% in 2023. Although the CAR is above regulatory minimums (typically 10% or higher depending on the country), the gradual decline could suggest an increase in risk-weighted assets or a slower growth in capital.Islami Bank Bangladesh Limited CAR has decreased slightly since 2021 but remains relatively stable and above the regulatory minimum.The minor fluctuations in CAR suggest that the bank has been managing its capital efficiently, with a slight decline likely due to an increase in risk-weighted assets.First Security Islami Bank has the highest CAR among the four banks, maintaining above 20% for all three years. The consistent and high CAR indicates strong capital reserves relative to its risk-weighted assets, suggesting a very robust financial position and a conservative approach to risk management. Shahjalal Islami Bank has maintained a stable CAR, with a slight increase from 14.38% in 2022 to 15.06% in 2023. This stable CAR indicates strong financial health and a well-capitalized position, with consistent risk management practices over the years.

In conclusion, First Security Islami Bank leads in terms of capital strength, followed by Shahjalal Islami Bank and Al-Arafah Islamic Bank, with Islami Bank Bangladesh

Limited slightly behind in terms of CAR but still in a strong position. All banks maintain CARs well above the typical regulatory minimum, indicating strong financial health overall .

Chapter 5 Findings

5.1 Findings : From 2021 to 2023, the Above indicates banks' financial performance as a profitability ratio, market ratio, and value-added metrics.The findings are :

1.The whole industry's overall profitability rates, which comprise the ROA, ROI, and ROE, are 0.57%, 40.21%and 12.66% respectively.

2.The average EPS is BDT 0.02, reflecting very low earnings per share for banks in the sector during this period.

3. The industry's average EVA is BDT 4445.34 million, showing a positive but small contribution to the bank's value creation over the cost of capital

4.The negative MVA of BDT negative 605,108.46 million suggests that, on average, the banks are under performing in terms of the market's perception of their future profitability.

5. Shahjalal Islamic Bank and Islami Bank Bangladesh Limited emerge as the top performers in terms of financial health, especially in EVA, indicating strong value creation.

6. Islami Bank Bangladesh Limited stands out as the strongest performer among the banks, particularly in terms of profitability ratios and value-added metrics.

7.First Security Islami Bank is facing significant challenges in terms of financial performance, with poor profitability ratios and negative value-added metrics compared to other banks.

8.Based on profitability ratios (ROA, ROI, ROE), Islami Bank Bangladesh Limited holds the 1 position in the industry, showcasing the best financial health and return on investments.This ranking is supported by strong financial metrics, especially in profitability and value generation.

Chapter 6

Conclusions and Recommendations

6.1 Conclusion :

This paper examines the financial performance of Islamic banks in Bangladesh by analyzing their financial strength from 2021to 2023. Several key ratios are typically used to evaluate a company's financial performance,strength such as profitability ratios, financial indicators, and business ratios, which reflect the company's ability to generate profits and its position in the market. Additionally, value-added metrics assess the economic contribution of the company. Financial ratios provide crucial quantitative data for investors and stakeholders, allowing them to measure a company's performance over time. In this study, profitability ratios, market ratios, and value-added metrics were used to assess the banks' performance. The findings led to the conclusion that Islamic bank Bangladesh Ltd. demonstrated superior financial performance compared to other banks across all ratio categories. However, the study also revealed that most banks have underperform in terms of market value, as they were undervalued and faced aggressive market pricing, leading to significant challenges during this period.

6.2 Recommendations :

Based on the analysis of Islamic banks' financial performance in Bangladesh from 2021 to 2023, several key recommendations can be made.The recommendation are :

1. Banks should enhance market valuation by improving transparency and better communicating their financial strength to investors, which would help address the issue of being undervalued in the market.
2. To increase profitability, banks should focus on improving operational efficiency, diversifying revenue streams, and reducing non-performing assets.
3. Streamlining internal processes and improving productivity can reduce operational costs. Banks can implement automation, improve their IT systems, and focus on cutting inefficiencies in operations to increase profit margins.
4. By improving credit risk assessment, increasing loan recoveries, and implementing stronger collection practices, banks can lower their NPAs. A focus on reducing default rates improves overall asset quality, which can boost profitability.
5. Islamic banks should diversify their product offerings, introducing innovative, Shariah-compliant financial products that cater to a wider range of customers.

6. Exploring strategic partnerships or mergers can also help expand market share and improve financial performance.

7. Lastly, banks should actively engage with regulators to advocate for policies that support the growth of Islamic finance, creating a more favorable environment for their operations.

8.By collaborating with regulators, Islamic banks can ensure that policies are aligned with the unique requirements of Islamic finance, such as tax exemptions on Shariah-compliant products and regulatory flexibility on Islamic banking operations. This will create a supportive ecosystem that enhances the sustainability and growth of Islamic banks .

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7.Annual report of First security Islami bank 2021 to 2023.

8.Annual report of Shahjalal islami bank PLC 2021to 2023.

List of Acronyms

EVA	Economic Added Value
SOBs	State-Owned Banks
PCBs	Private Commercial Banks
FCBs	Foreign Commercial Banks
NBFIs	Non-Bank Financial Institutions
FRA	Financial Ratio Analysis
ROI	Return on Investment
ROA	Return on Assets
ROE	Return on Equity
EPS	Earnings per Share
MVA	Market Value Add

Appendix – 1: Profitability Ratio

Name of the Banks	Year	Return on Investment (ROI)	Return on Assets (ROA)	Return on Equity (ROE)
AL arafah islami bank ltd	2023	0.41%	0.41	8.89%
	2022	0.39%	0.39%	8.13%
	2021	0.45%	0.46%	8.21%
Islami bank bangladesh limited	2023	6.76%	0.32%	8.77%
	2022	6.39%	0.34%	8.67%
	2021	6.32%	0.30%	7.19%
Shahjalal Islami Bank PLC	2023	4.89%	1.05%	15.89%
	2022	4.63%	1.08%	16.92%
	2021	3.46%	0.85%	13.70%
First security islami bank	2023	3.52%	0.51%	17.18%
	2022	2.87%	0.51%	17.62%
	2021	1.51%	0.64%	20.84%

Appendix – 2: Market Ratio and Value-Added Metric

Name of the Banks	Year	EPS (in BDT)	EVA (BDT in million)	MVA (BDT in million)
AL arafah islami bank ltd	2023	2.14	3463.95	3397.01
	2022	1.95	3738.79	2983.96
	2021	1.96	3184.67	6675.03
Islami bank bangladesh limited	2023	3.80	11830	18708
	2022	3.68	12288	14876
	2021	2.88	9712	13041
Shahjalal Islami Bank PLC	2023	3.26	3433.73	9237.64
	2022	3.17	2838.22	9508.85
	2021	2.39	1968.79	12143.34
First security islami bank	2023	2.85	338.86	-658485.75
	2022	2.81	275.31	-614903.1
	2021	3.20	271.80	-544355.64

Appendix – 3: Descriptive Statistics of Variables

Ratios	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets (in %)	12	0.003	0.0108	0.00571	0.6782
Return on Investment (in %)	12	0.0039	0.0676	0.4021	3.5962
Return on Equity (in %)	12	0.0719	0.2084	0.1266	13.9685
Earnings Per Share (in BDT)	12	0.0195	0.38	0.028408	3.0108
Economic Value Added (BDT in million)	12	271.80	12288	4445.34333	2685.2563
Market Value Added (BDT in million)	12	-658485.75	18708	-605108.463	1.81575777

Appendix – 4: Banks Financial Performance (Based on Profitability Ratio)

Name	Mean Score	Standard Deviation	Coefficient of Variation	Ranking
AL arafah islami bank ltd	0.051	0.0746	1960.78	3
Islami bank bangladesh limited	0.050	0.175	350	1
Shahjalal Islami Bank PLC	0.0693	14.527	20962.4	4
First security islami bank	0..0724	0.5366	741.16	2