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# An Empirical Analysis of the Performance, Growth, and Potentiality of the Islamic Banking: A Perspective of Bangladesh

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**GJMBR-G Classification:** *JEL Code: E50*



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# An Empirical Analysis of the Performance, Growth, and Potentiality of the Islamic Banking: A Perspective of Bangladesh

Kazi Noor-E Jannat<sup>α</sup>, Md Zaker Hossin<sup>σ</sup> & Md Rifat Zahir<sup>ρ</sup>

**Abstract-** This paper attempts to have an empirical analysis of the performance, growth, and potentiality of the Islamic Banking across the world with a particular reference to Bangladesh. To achieve its aim and objectives, initially, this paper reviewed the existing knowledge- followed by a qualitative method of documentation analysis of 8 Islamic banks in performance with 965 branches, 9 conventional banks with 20 branches of Islamic banking facilities and 7 conventional banks with 25 Islamic banking windows are providing Islamic banking services in Bangladesh. Comments are derived from the analysis of the findings of these banks. The findings revealed that Islamic Banking system becomes a popular term of banking to the people of Bangladesh. In the year of 2015, Islamic Banks market share increased by 20%, Liability increased by 16.6%, Profitability increased by 31.7%, and share of remittance collect 31.6% which directly showed the significant growth of Islamic Banks in Bangladesh. Even though in the time of economic downturn in 2008-09 while other conventional banks were struggled, Islamic Banks performed very well. Finally, this paper provided some implications that Islamic Banks can adopt for better performance and growth. It is hoped that this current study will be of value to contribute to Business and Management literature, and to policymakers, bankers, and stakeholders for an understanding of the current performance of Islamic Banks, and thereby to improve future performance and growth.

**Keywords:** *islamic banking, shari'ah based banking, growth & performance, market share, profitability, liquidity, capital position, remittance mobilization, classified investments.*

## I. INTRODUCTION

From a liberal sense, when a banking system mobilizes and invests financial resources in accordance with principles of Islamic Shari'ah, it is called Islamic banking (Harrison & Ibrahim, 2016). Awad (2010) asserted that though Islamic banking functions are founded on different concepts, it is mainly focused on the equity concept and is strictly asset-backed, which makes the Islamic banking system different from

the conventional banking system. The core principle of Islamic Banking system is that it is prohibited interest or *riba'h* as it is not allowed in the religion of Islam. Despite, argues regarding equivalence of interest rates charged by modern financial institutions with the Shari'ah concept of *Riba*, mentioned by the Islamic economic scholars including Kabir & Lewis, 2007; Awad, 2010; Iqbal & Molyneus, 2016; and Sarkar, 1998. Another principle regarding sharing of profits and losses of an investment is shared by the both parties (fund-providers and investors) on the foundation of capital share and effort. In Islamic finance, in that respect is no guaranteed rate of return like the conventional finance (Kabir & Lewis, 2007). In addition, before making any investment decision, investors should be fully conscious and informed of the business to be invested in, investment policies, procedures, and products, as considerably as the societal and environmental impacts of the investment that suggested by Harrison & Ibrahim, 2016. In this sheath, one need to work for earning profits and just lending money to an individual who demands it does not count as work. Furthermore, Awad (2010) emphasized that according to Islamic Shari'ah, money cannot be used to create more money and such act is taken as '*Gharar*' which means null and void. In a wider sense, '*Gharar*' refers to the uncertainty regarding a contractual relation, to the degree when it might render an unethical profit to one of the contractors with a contract over the other. This ethical restriction to the Islamic banking system avoids involving in business related to theft, gambling, wagering, or industries opposed to Islamic values. The term '*Gharar*' also promotes the concept of sharing risks, connecting the financial system with the tangible economy, and highlights financial formation and social well-being.

The main aim of this paper is to have an empirical study of the performance, growth and potentiality of the Islamic banking through analyzing its performance in the resources mobilization and deployment of funds with a particular reference to Bangladesh. To achieve its aim and objectives, this paper has reviewed the existing knowledge based on the performance, growth and potentiality of Islamic banking- followed by a qualitative method, documentation analysis of Bangladesh Bank Annual Reports between 2010 and 2015 in terms of 8 Islamic

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banks in performance with 965 branches, 9 conventional banks with 20 branches of Islamic banking facilities and 7 conventional banks with 25 Islamic banking windows are providing Islamic banking services all over the country. Comments are derived from the empirical analysis of these annual reports of Bangladesh Bank which produced more sophisticated information. The analysis of this paper has successfully revealed that Islamic banking system becomes a popular term to the people of Bangladesh for its outstanding performance, services and facilities providing in this country. Later on, this paper provided some recommendations that can be implemented for better performance and growth of Islamic banking system all over the world, especially in Bangladesh. It is hoped that this paper will be of value to contribute to business and management literature and to practitioners, policy makers, bankers and stakeholders for better performance and growth of Islamic banking system.

## II. LITERATURE REVIEW

In more and more competitive world, Islamic Banking system becomes very popular to the people all over the world, especially in Islamic societies whilst interest or *riba'h* is prohibited in the religion of Islam. Over the last decade, an annual 10% growth rate of global Islamic finance, explains the potentiality of the segment including all financial institutions (Bank & Non-bank financial institutions), capital markets, money markets and insurance, Shari'ah-compliant financial assets are valued at nearly US\$2 trillion (Harrison & Ibrahim, 2016). Agreeing to the IMF (International Monetary Fund) report in 2016, in 2013, banking sector alone managed 80% of Islamic finance. This has resulted in the Sukuk (Shari'ah-compliant bonds) market, which accounts for 15% of the Islamic finance industry assets. However, between 2007 and 2013, Islamic banking assets have increased at a compound annual growth rate of 20.4%. In terms of sophistication and size, Islamic capital markets have also evolved significantly over the past decade. According to IFSB 2016, Islamic banking crossed the outset of 15% share of banking system assets in 10 countries including Bangladesh. Islamic banking represents about 1.25% of global banking assets. Therefore, the term of Islamic banking has been taken huge attention in the literature to be researched (Brian, 2011; Rahman, 2010; Ahmad, 2010; Kabir & Lewis, 2007; Harrison & Ibrahim, 2016). Moreover, Ahmad (2010) argued that even, during the recent global financial crisis, Islamic banks were less exposed to the toxic assets that infected the conventional banking system worldwide. However, through the real estate depression, they suffered from second-round consequences. Considering this worldwide uproar of the Islamic banking, it is now time

to examine their function and performance of the Islamic banking sector in Bangladesh.

Furthermore, according to Makiyan, nowadays Islami Bank has been rapidly growing in the world. Most of the Islamic countries follow Islamic based or Shariah-based banking system. This is done because of the opening of Islamic Windows in different commercial banks or the establishment of distinct banks or branches under the Islamic law that specialized in Islamic financial operations emphasized by Khan & Porbio (2010). The Islamic bank serves a large number of investors and entrepreneurs. On one side, they act as a speculator/agent to whom the investors endow their savings and on the other side they play a vital role to finance a multitude of entrepreneurs (Kettler, 2011 & Rahaman, 2010). Abedin (2016) further argued that Islamic finance has been vastly expanded, resulting with an annual growth rate 10%, comparing with conventional banking system Islamic banking system doing well in the banking industry. It is based on the law that money must not be allowed to create more money. The Islamic banking system ensures economic development because of introducing PLS (Profit & Loss sharing) modes of operations. If it can work solely it would be more efficient to prove Islamic banking systems potentialities.

In addition, Harrison & Lewis (2016) asserted that proper implementation of Islamic rules and principles is one of the basic motives of the shariah-based banking system. Muslim thinkers and reformers uplift the ideas of execution of Islamic principles to whole life. Ibrahim & Molyneux (2016) further added that due to the asset-backed securities, Islamic banking system was least affected by the credit crunch. In 2009, the world's top 500 Islamic Financial Institutions shows growth assets at an extremely healthy rate of 28.6% to reach assets of \$822 billion in 2009. Islamic finance played a great role by contributing to the financial crisis in 2008 by encouraging the idea of PLS (Ahmad, 2010). Rahman (2010) argued that with Islamic finance and corporate finance risks are shared between the bank and the clients, indeed it is this sharing that justifies the banks return. These ensure the greater long-term corporate relationship with the bank. Islamic banking system ensures less financial crisis as they have built-in stabilizers that lower the probability of a crisis. Depositors with Mudarabah scheme or contract are provided with a safety net. If any losses occur then none of the current revenue can be paid to the depositors, rather financing can be made from profit equalization reserve that most Islamic banks maintain.

## III. METHODOLOGY

This paper has adopted a qualitative method as Veal (2006) argued that qualitative method is an important and beneficial approach in social science to

collect primary data. Veal (2006) further stated that qualitative method is more efficient to collect a large amount of data in research. Jennings (2001) asserted that qualitative method is vital in collecting data which is based on the interpretation of the research and formulation of the findings. In terms of qualitative method, this paper has used documentation analysis approach to collect primary data to achieve its aim and objectives. Saunders et al (2009) argued that among the various techniques of qualitative method, documentation analysis is considered of an important technique to collect information from organizations or institutions. This research demanded to collect information from all Islamic Banks providing services in Bangladesh in which documentation analysis was considered as an easy and a reliable technique in this research. In terms of documentation analysis, this paper mainly gathered information from the annual reports of Bangladesh Bank between 2010 and 2015.

Saunders et al (2009) further emphasized that documentations of the organizations or institutions have been used in social science as a qualitative method for many years. This document analysis involved at looking various printed and online reports of Bangladesh Bank which produced more sophisticated information in this paper. As same as other technique of qualitative method, documentation analysis is required data to be examined, interpreted to gather meaning, gain and develop experimental knowledge. Bowen (2009) asserted that in recent years documentation analysis identified as an important and a beneficiary tool to gather qualitative information as it is time-consuming and easy to gather information from the organizations or institutions, especially after the revolution of the internet. In terms of sampling, all Islamic Banks and other conventional banks with Islamic banking window and services were randomly sampled in this research. The

main focus of the paper was to analysis the performance of Islamic Banks in Bangladesh, and therefore, analysis of annual reports of Bangladesh Bank made this research more reliable and valid. There was no ethical consideration required as information was open to access by both off print and on print. Data gathered from documentations finally analyzed through skimming (superficial examinations), reading and interpretations.

#### IV. FINDINGS AND ANALYSIS: AN EMPIRICAL STUDY

##### a) *Growth & Performance of Islamic Banking in Bangladesh*

Following the financial system of Bangladesh, compared to the conventional banking, Islamic banking is growing and attaining the market share rapidly. Currently, there are 8 Islamic banks in performance with 965 branches across the country. Additionally, 9 conventional banks with 20 branches of Islamic banking facilities and 7 conventional banks with 25 Islamic banking windows are providing Islamic banking services all over the state. Over the past three decades, all of these banks have been strongly performing adjacent to conventional banks. The primary postulate of Islamic banking is the refusal of interest as it is prohibited in Islam, Alternatively, sharing of profit and loss in accordance with Shari'ah. It is not a separate segment of the financial system; furthermore, it is an option to the conventional banking system.

##### b) *Growth of Islamic Banking*

Playing along in terms of assets, deposits, investments (loans and advances) and shareholders' equity, Islamic banks are maintaining a steady growth over the last couple of years.



Chart 1: Growth of Islamic Banking

Note: Excluding Islamic Banking Branches & windows of Conventional Banks

Source: DOS, Bangladesh Bank; Computation: FSD, Bangladesh Bank; Chart: Authors



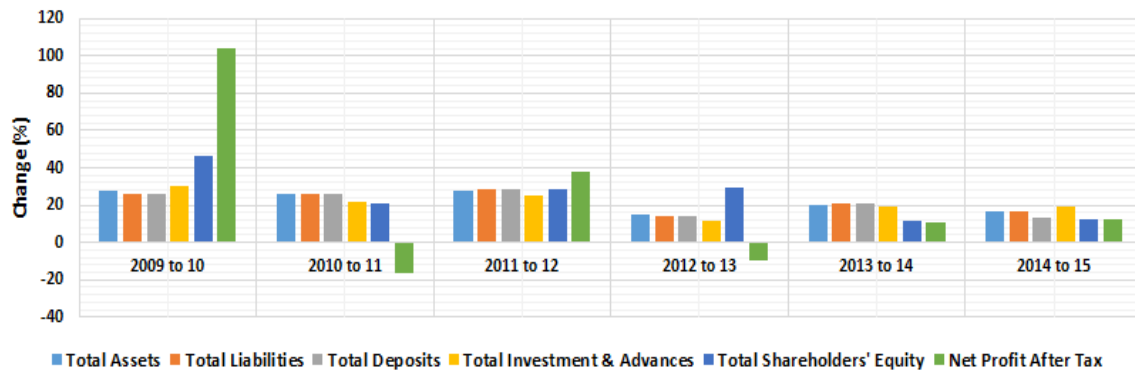


Chart 2: Growth of Islamic Banking

Note: Excluding Islamic Banking Branches & windows of Conventional Banks

Source: DOS, Bangladesh Bank; Computation: FSD, Bangladesh Bank; Chart: Authors

Above mentioned chart 1 and 2 showed a steady growth of the Islamic banking sector in the last couple of years. While the growth of investments (loans and advances) to the overall banking industry was 14.8%, investments (loans and improvements) of the Islamic banking sector increased by 18.6% (13.3% in CY14). The liability base also increased by 16.6% (20.8% in CY14), largely due to a positive growth in the deposit base of 13.6% (21% in CY14) compared to the growth in the overall deposit base of the banking industry of 12.5%. The gross NPL ratio of the Islamic banks was 4.6% (4.9% in CY14), in contrast with 8.8% (9.7% in CY14) for the overall banking industry.

### c) Market Share of Islamic Banks

In CY14, Islamic banks had got around 20% market share of the total banking sector. Compared to the CY14, in CY15, the whole market shares of Islamic banks (excluding Islamic banking branches/windows of conventional banks) remained almost like. In CY15, Islamic banks had 18% (18% in CY14) of assets, 22% (21% in CY14) of investments (loans), 19% (19% in CY14) of deposits, 15% (16% in CY14) of equity and 19% (18% in CY14) of the liabilities of the overall banking industry.

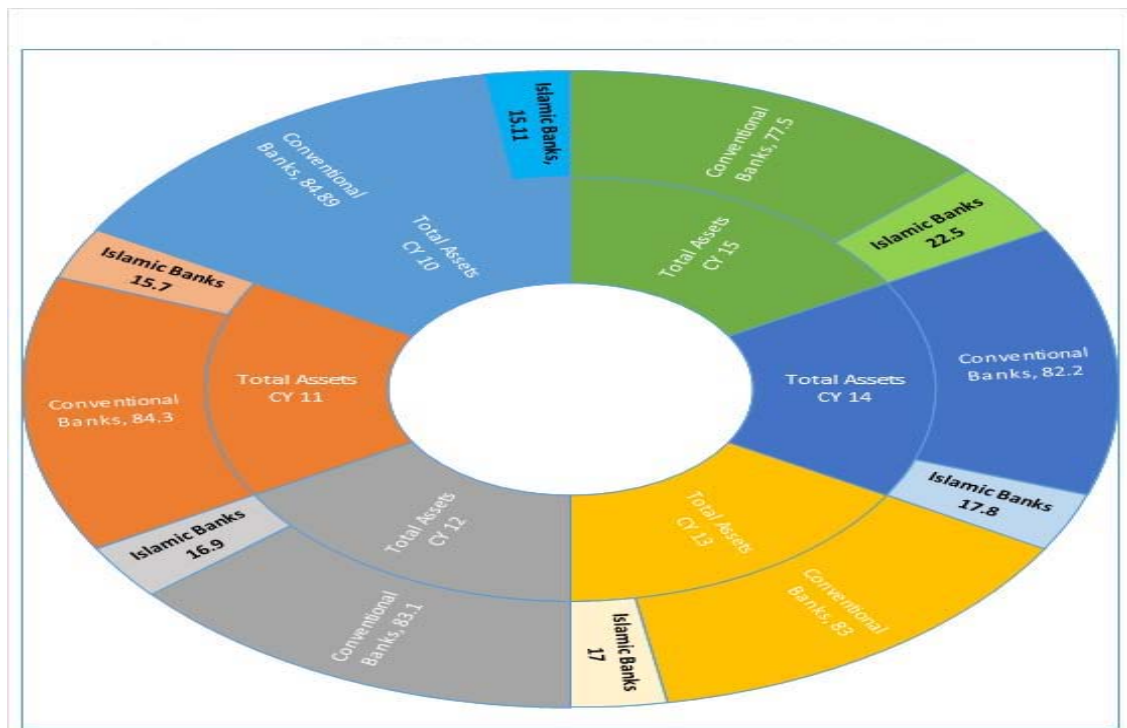


Chart 3: Share of Islamic Banks in the Banking Sector

Source: DOS, BB; Computation: FSD, BB; Chart: Authors

#### d) Profitability of Islamic Banks

In CY15, profitability ratios of Islamic banks continued steadily. The key profitability indicator, ROA (Return on Assets), of the Islamic banking sector was alike as the overall banking sector; although, ROE (Return on Equity) was more eminent than that of the overall banking industry. More importantly, net income of the earliest and the largest Islamic bank listed second from the acme in the whole banking industry. Likened to the previous year, in 2015, the net profit of Islamic banks

increased by 12.0%. On the contrary, the net profit of the overall banking sector was increased by 31.7% in 2015 (-17.3% in 2014). Due to the rescheduling of a noteworthy portion of their classified loans and also the nearly steady business context of the country in the reporting year. On the contrary, in the lack of an organized Islamic bond market, these banks run with a specific liquidity provision system, and that may likewise help them to produce more income with greater loanable funds related to conventional banks.

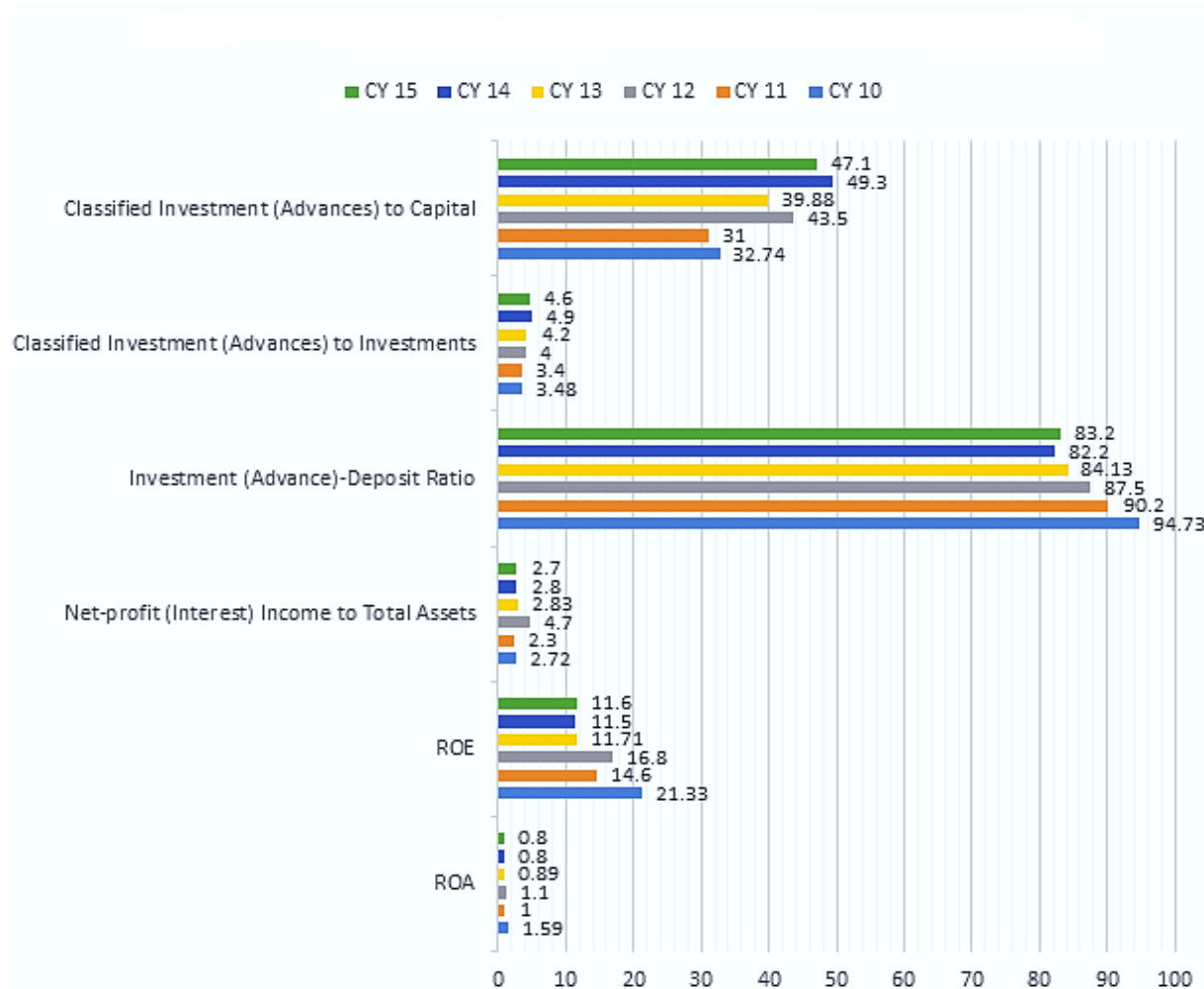


Chart 4: Selected Ratios of Islamic Banks and the Banking Sector

Source: DOS, BB; Computation: FSD, BB; Chart: Authors

Through CY15, Islamic banks contributed 18.8% of total industry profits. The profit income to total assets ratio of Islamic banks touched 7.7%, which is higher than that of the conventional banking sector (interest income to total assets ratio of 6.2%). Besides that, the non-profit income to total assets ratio was only 1.0% as matched with the industry standard of 2.7%, meaning a lower income from the off-balance sheet (OBS) activities and service and fee-based incomes. In CY15, the ROA (Return on Assets) of the Islamic banking industry was 0.8%, similar to the overall banking industry. This is

showing a comparably efficient management of assets by the Islamic banks. Moreover, the ROE (Return on Earning) of the Islamic banking industry held at 11.6%, which is more eminent than that of the overall banking industry. This represents the higher earnings of Islamic banks and comparatively lower equity position.

#### e) Islamic Banks' Liquidity

Observing the difference between the required and maintained CRR (Cash Reserve Ratio) and SLR (Statutory Liquidity Ratio), the liquidity position of the

banks can be evaluated. In CY15, it seems like banks held a heavy proportion of government securities in their portfolio. Following the chart 5, it appears that in CY15, the banks maintained SLR well above their required

level. Although, the higher portion of SLR maintenance might be due to the bank's tendency to seek out safer investments rather than more risky loans and advances.

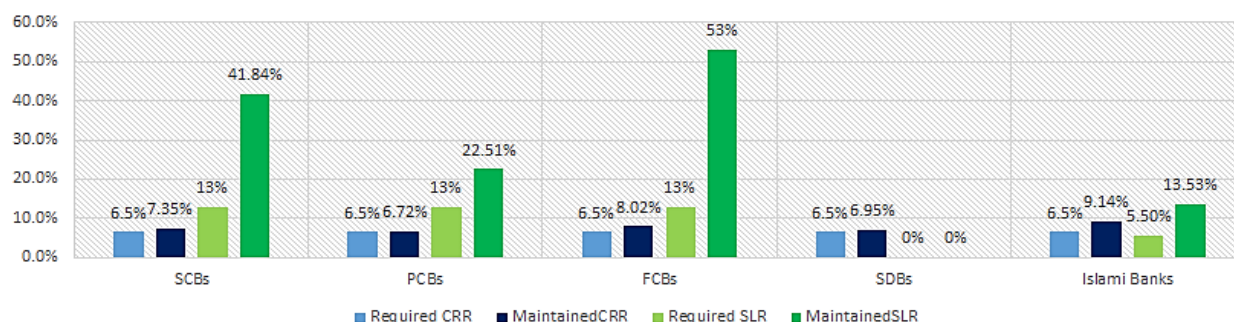


Chart 5: CRR and SLR for Banking Industry (End December, 2015)

Source: DOS, BB; Computation: FSD, BB; Chart: Authors

There is a lack of Shari'ah-compliant SLR (Statutory Liquidity Requirement) suitable instruments in the securities market. This allows Islamic banks to resist on their SLR at a concessional rate compared with that

of the conventional banks. As of December 2015, Islamic banks are obliged to keep 6.0% and 5.5% of their total time and demand liabilities as CRR and SLR sequentially.

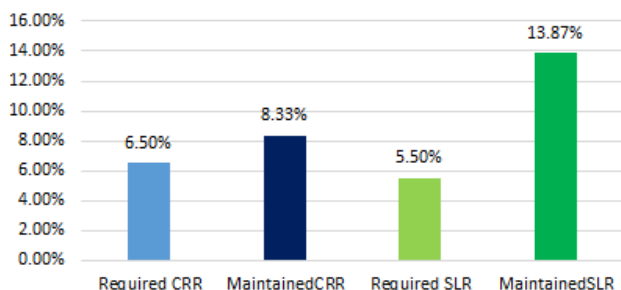


Chart 6: CRR and CLR for Banking Industry (Islamic Banks- CY 14)

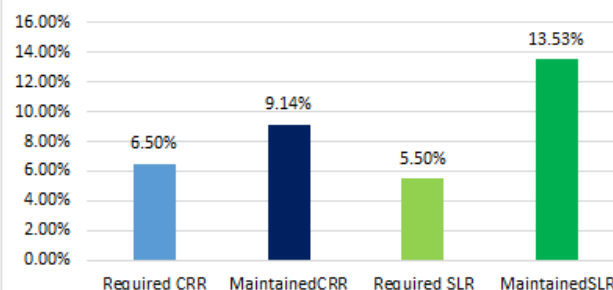


Chart 7: CRR and CLR for Banking Industry (Islamic Banks – CY 15)

Source: DOS, BB; Computation: FSD, BB; Chart: Authors

As evident from chart 6 & 7 shows that Islamic banks are maintaining much higher SLR than the requirement. This may be of preferable to a lack of Shari'ah-compliant, suitable instruments in the securities market of Bangladesh as well as a lack of investment opportunities. In addition, as of December 2015, the aggregate IDR (Investment-Deposit Ratio) of Islamic banks was 83.2, just a bit higher from 82.9% as of December 2014, which is yet below the maximum acceptable level of 90%.

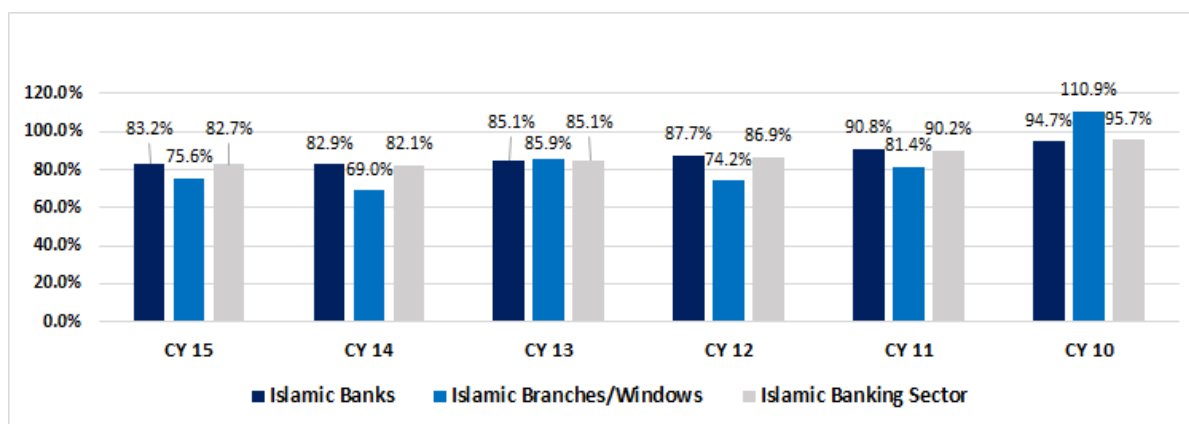


Chart 8: Islamic Banking Sector (IDR %)

Source: DOS, BB; Computation: FSD, BB; Chart: Authors

Due to a higher SLR requirement for conventional banks, the ADR of the overall banking industry was 70.7%, while recommended maximum level is 85%. Compared with the ADR of Islamic banks, which is 83.2%, it is much more downcast. Since 2012,

Islamic banks can acquire funds either from the Islamic inter-bank money market or from the Islamic Investment Bonds Fund circulated by the Government. This is imputable to the inadequate sources of Shari'ah-compliant funds.

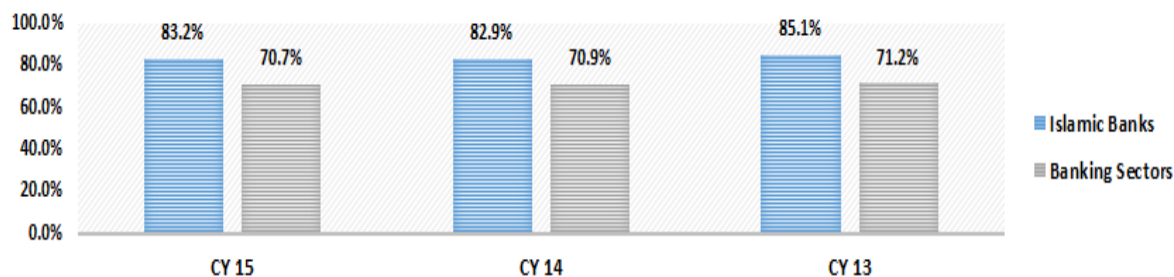


Chart 9: IDR (ADR) of Islamic Banking and the Overall Banking Sector

Source: DOS, BB; Computation: FSD, BB; Chart: Authors

Agreeing to the evidence from above chart 8 & 9, in CY15, there was no liquidity stress among the Islamic banks, as the IDRs of Islamic banks were below the recommended maximum level of 90%. Bangladesh Bank amended the 'Bangladesh Government Islami Investment Bond (Islami Bond) Policy, 2004', to control the surplus liquidity held by the Islamic banks. Under the intention of building a strong base for Islamic bond market, such amendment was necessary. Furthermore, it will assist to direct excess liquidity into investments through Islamic bonds. In 2014, the Debt Management Department of Bangladesh Bank issued a circular to introduce the auction process of Islamic bonds, which is directed to a gazette notification of 18 August 2014.

Previously, the maturity period of Islamic bonds was 6 months, 1 year and 2 years. With the new amendment of the Islamic Bond Policy, the maturity period of Islamic bonds was re-amended at 3 months and 6 months, which is more compromising and will assist the Islamic banks/FIs to manage their funds

easily. The Islamic bonds will be issued through an open auction, on the basis of the PSR (Profit Sharing Ratio). For instance, as the Bangladesh Bank as the issuer, the profit earned by investing in these bonds will partake by the buyer and by the Bangladesh Bank. Instead of the former Mudaraba scheme, the profit of Islamic bonds will be even with the profit of a three-month fixed deposit scheme of the issuing Islamic banks. The bonds are allowed to switch among the eligible individuals and institutions. Moreover, the bonds can be used as an instrument for repo operations.

If the government desires to sell BGILB (Bangladesh Government Islami Investment Bonds), the government and the investing banks will have to share the profit or loss, as the fund will be supervised by the government in accordance with Shari'ah obligations. Again, if the government desires to use the funds for a longer term and in specific projects, instead of using short-term bonds like mentioned before, the government should use the financial instruments like long-term



bonds, complying with Shari'ah requirements, normally known as 'Sukuk'. This is because it is easier to calculate earnings and loss from specific projects and the profit or loss can partake with the fund suppliers on a pre-agreed term. It can be noted here that Bangladesh is, however, yet to issue any long-term bonds.

#### f) Capital Position of Islamic Banks

In CY15, a total of 7 out of 8 Islamic banks complied with the regulative terms, under the Basel-III accord, advised the minimum CRAR (Capital to Risk-weighted Asset Ratio) for 10%.

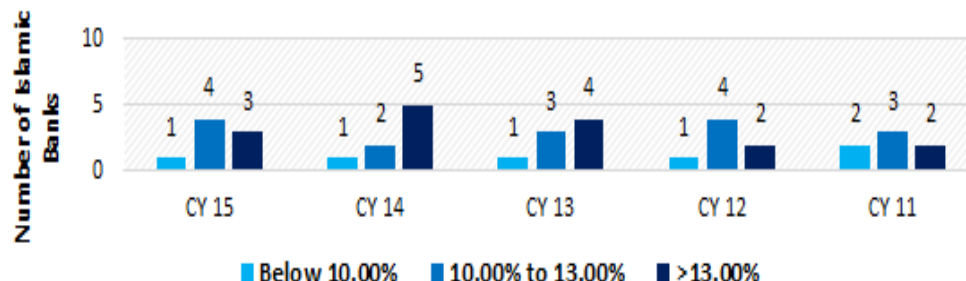


Chart 10: Islamic Banks' CRAR

Note: Excluding Islamic banking branches/windows of conventional bank

Source: DOS, BB; Computation: FSD, BB; Chart: Authors

To confront the uncertainties and deal with the up-downs of the financial market, a strong capital base is a prerequisite. In CY15, 7 Out of 8, Islamic banks are exposed to having a CRAR more than 10%. Nevertheless, due to a historically huge cumulative loss and provision shortfall, one Islamic bank's CRAR continued negative on since 2006. This bank changed its ownership within a short extent of time and it has been functioning under a restructuring plan since 2008.

#### g) Remittance Mobilization by the Islamic Banks

The CY15 was indeed a meaningful year for the Islamic Banking sector. Adjacent to conventional banks,

Islamic banks also play an important role in collecting foreign remittances and dispensing them among its recipients throughout the country. In CY15, the Islamic banking sector contributed to the collection and mobilization of almost one-third of total foreign remittances, with its only one-fifth share of overall banking sector assets.

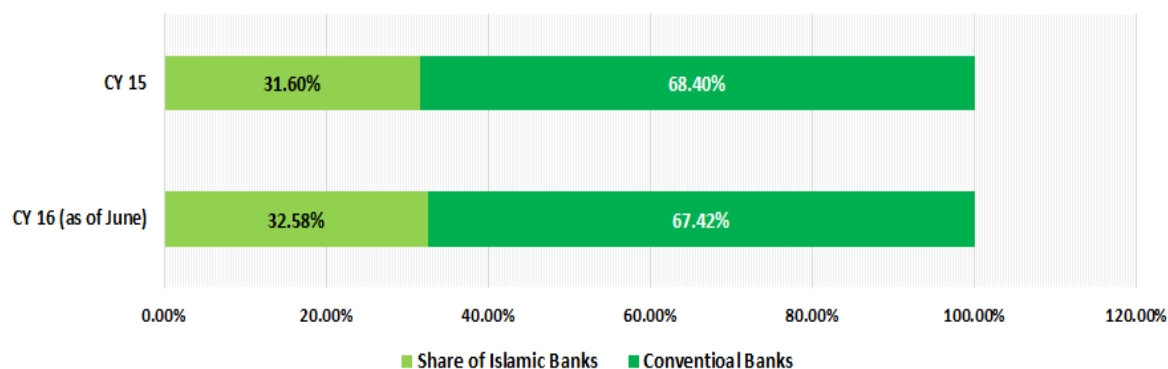


Chart 11: Share of Remittances Collected by the Islamic Banks & the Overall Banking Sector

Source: Developments of Islamic Banking Sector in Bangladesh, BB publication (quarterly); and Quarterly Report on Remittance inflow. Computation: FSD, BB; Chart: Authors

In CY15, the total inward foreign remittance was BDT 1,200,848.1 million, of which BDT 379,503.9 million was gathered up and distributed by the Islamic Banking sector. Therefore, the Islamic banks accounted for a 31.6% share of remittances collected by the overall

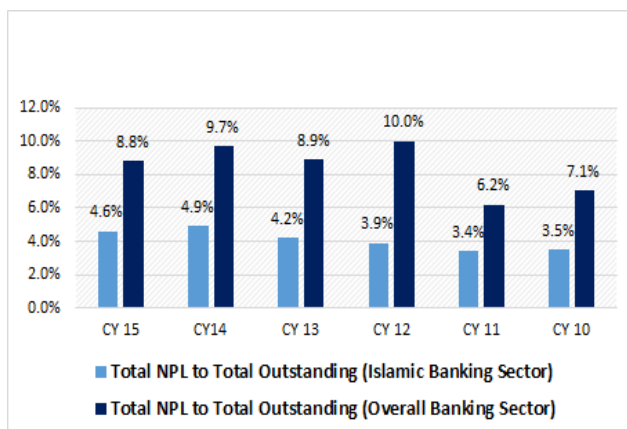
banking industry. At the end of April-June 2016, foreign remittance mobilized by the Islamic banking sector reached at BDT 9888.02 crores quarter, which was higher by BDT 1377.72 crores (16.197%) and BDT

569.32 crores (6.11%) related to the previous quarter and the same quarter of the preceding year respectively.

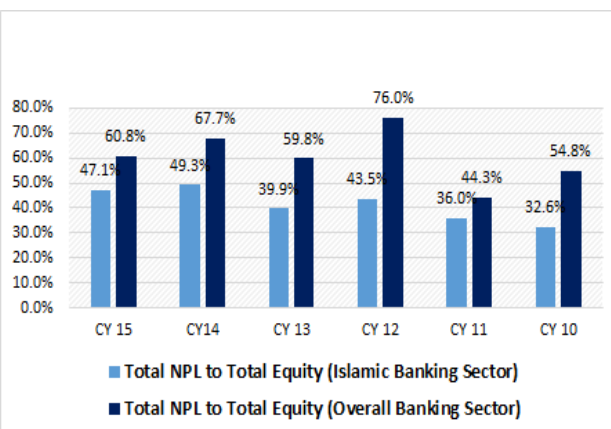
#### h) *Classified Investments of Islamic Banks*

In CY15, Islamic banks showed a better performance regarding the classified investments to

total investment ratio. The ratio was 4.6%, which is a lot lower than 8.8% compared to the overall banking industry. However, involving only private commercial rather than the overall banking industry, the ratio drops to 4.9% from 8.8%.



**Chart 12:** Classified Investments (Loans and Advances) of Islamic Banks and the Banking Industry



**Chart 13:** Classified Investments (Loans and Advances) of Islamic Banks and the Banking Industry

*Note: Excluding Islamic banking branches/windows of conventional bank*  
*Source: DOS, BB; Computation: FSD, BB; Chart: Authors*

Comparing with the closest peer group PCBs (Private Commercial Banks), Islamic banks had just slightly less NPL (Non Performing Loans). The classified investment to total equity was 47.1% for Islamic banks, whilst compared with 60.8% for the overall banking industry. This represents that, compared with the overall banking industry; Islamic banks were more elastic in narrowing potential losses from their investments (loans and improvements). Moreover, while studying the stability of the Islamic Banks, as they are capable of passing the negative blows on the asset side (Loss in Musharaka a/c) to the investment depositors (Mudaraba a/c arrangement), it seems like they are less vulnerable to risks. Such schemes help to shift the credit, market, and liquidity risk of their assets to their depositors proportionately. Whereby, in principle, compared with conventional banks, this will discourage the shareholders from taking unnecessary risks. In other words, depositors may contribute toward the market correction. Even so, in stressed scenarios, Islamic banks do not necessarily pass the risk of its assets to its depositors. Alternatively, in practice, Islamic banks pass the asset portfolio risk onto the shareholders and share their profits to depositors at benchmark rates. Furthermore, when investment revenues are considerably higher, Islamic banks normally give a higher portion of revenues to depositors as a rate of return in line with market deposit interest rates rather than the full profit due to them. On the reverse, the conventional banks will do the opposite in years when investment revenues are low by reducing its own

management (the Mudarib) fee share to increase the share of distributions for the depositors.

## V. ISLAMIC BANKING SERVICES

Basically, Islamic Banks offer four types of financial services, which are as follows - deposits, lending, treasury, and trade finance. They receive deposits under two methods, which are Wadiah and Mudarabah (Wadiah Yad Dhamanah, n.d.). The received deposits of Islamic banks are invested in the several modes, which are as follows - Mudaraba, Musharaka, Quard, Bai-Murabaha, Bai-Muajjal, Salam and parallel Salam, Istisna and parallel Istisna, Ijara, Direct Investment, and Investment Auctioning etc. According to Bangladesh Bank, Mudaraba Term Deposits are the most common types of deposits of the Islamic banking industry, which is followed by MSD (Mudaraba Savings Deposits) and Special Scheme Deposits, as of CY15. While observing the investment, the largest investments were made by Bai-Murabaha followed by Bai-Muajjal and HPMM (Hire Purchase Musharaka Mutanaqisa). In the following year, Islamic banks invested most of their funds in the MSME (Micro, Small & Medium Enterprises) and trade sector. The Islamic banking sector also contributed toward the collection and distributions of foreign remittances and accounted for a nearly one-third share of remittances collected by the entire banking industry at as of CY15. Amongst the all Islamic banks, Islami Bank Bangladesh Ltd. is at the top in respect of remittance collection as of CY15. As a division of CSR (Corporate Social Responsibility) activities, each year

Islamic Banks collect and distribute Zakat across the nation. Besides, they also support in Umrah travel to the Hajjs.

## VI. CONCLUDING REMARKS, IMPLICATIONS & LIMITATION

The above discussion revealed that Islamic Banking system has become a popular term of banking to the people all over the world, especially in Bangladesh. The significant growth of this banking system in last few years showed that it has the huge potentiality for its growth as people in Islamic societies are more attracted to this banking system whilst interest (Riba'h) is prohibited in the Islamic religion. The empirical analysis of this paper has revealed that Islamic Banking system in Bangladesh has significant growth and contributed remarkably to the national economy. This banking system has a satisfactory condition in terms of reliability, validity, probability, profitability, liquidity, market share, and mobilizing global money. In compared to other traditional banking system in Bangladesh, the analysis of this paper revealed that Islamic banking system is doing well in Bangladesh. Even though Islamic banking has significant growth in last few years, however, it can be grown even more in compare to current position as Bangladesh is an Islamic society whereas the majority of the population are Muslims. Therefore, as a new option for the financial system, Islamic banking system of Bangladesh has been able to install its own presence with a continued development equipped by growing assent by the citizenry. To stabilize this growth, foremost strategic action should be devised to improve its image as PLS (Profit-Loss-Sharing) banks, in the psyche of people. The following strategies are advised for implication:

- a. To elevate and use as a major tool for financing, innovative ideas regarding the profit-loss-sharing modes of financing is required. To do so, some elected segments should be taken under test run of raw ideas. New & innovative ideas should be plotted as test schemes both in urban and rural areas. This attempt will help as a quick reference that Islamic banks are in the process of remodeling themselves.
- b. To acquire more flexibility and efficiency, Islamic banks must develop more standardized and widely tradable financial instruments.
- c. Islamic banks should come forth to simplify their effectiveness in terms of resource mobilization and implement true market signals through PLS modes.
- d. The main concerns of the Islamic banks should be regarding the depositors and the entrepreneurs. With a steady monitoring, they can identify their potential entrepreneurs hidden under different income groups of the society.
- e. Though in the last couple of years, Islamic banks showed their efficiency from all dimensions together

with profitability, it is recommended for them to increase their percentage share of investment financing through PLS modes. To do that, the Islamic banks can be careful in choosing clients for financing under PLS modes.

- f. As the banking philosophy of Islamic banks to maintain a distributional equity in accordance with shariah, they should take now steps to revert the trends of resource transfer from both low & high-income groups and from rural to urban areas.
- g. To improve the allocative efficiency, Islamic banks should allocate a reasonable part of their investible funds to social priority sectors like agriculture, SMEs and new export-led industries like crap, shrimp and so on. This will fulfill the social welfare conditions of the economy as a whole.
- h. To come out of the current circle of connections, Islamic banks should be concentrated on the wholesale and inter-bank money markets.
- i. The current competitive era in the banking sector suggests that a hybrid type of financial instrument should come forward to go and compete against interest-based conventional banks.
- j. To have a parallel view of the both Islamic & conventional banks, it is necessary to develop a secondary financial market for Islamic financial products.
- k. Influenced with Shariah, Islamic banks should act as the banker of the poor to alleviate poverty as the current collateral-based scheme for financing prohibiting the participation of poor in economic activities.
- l. Due to some incidents and concern for terrorism funding issues, Islamic banks should be more transparent in financial reporting standard.

This paper has successfully achieved its aim and objectives in terms of the empirical analysis of the performance, growth and potentiality of Islamic Banking system in the globe with a particular reference to Bangladesh. However, this research is only based on the documentation analysis as a qualitative approach, and therefore further research in this area can be done through adopting other techniques of qualitative or quantitative methods.

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