Internship Report

On

Financial Performance Analysis of Al-Arafah Islami Bank PLC

Prepared By:

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Submitted to

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Letter of Transmittal

June, 2024

Mr. Md. Ejaj-Ur-Rahaman
Assistant Professor
Department of Business Administration
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Daffodil International University

Subject: Submission of Internship Report

Dear Sir,

This is to inform you that I have completed my internship report on “Financial Performance Analysis of Al-Arafah Islami Bank Limited” which has been prepared as a requirement for the completion of the BBA program of the Department of Business Administration, Daffodil International University. I have tried my best to make this report a comprehensive and informative one. I hope you will appreciate my endeavor and find the report up to your expectations.

It has to be mentioned further that without your advice and cooperation, it would not be possible for me to complete this report. I shall be gratified to answer any sort of queries you think necessary regarding this report.

Sincerely

Proshanto Kumar Pondit

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Approval Certification

This is to certify that Proshanto Kumar Pondit ID#191-11-6137, BBA (Accounting), is a regular student of the Department of Business Administration, Faculty of Business and Entrepreneurship, Daffodil International University. He has completed his internship report on "Financial Performance Analysis of Al-Arafah Islami Bank Limited" and has prepared this report under my direct supervision. This research paper is worthy of fulfilling the partial requirements of the BBA program. I also declare that the study has been prepared for academic purposes only and this paper may not be used in actual market scenarios.

I have gone through the internship report and found it appropriately written. He has completed the report by himself. I wish him every success in life.

Mr. Md. Ejaj-Ur-Rahaman

Assistant Professor

Department of Business Administration

Faculty of Business and Entrepreneurship

Daffodil International University

Acknowledgement

In the name of God, the beneficent the merciful. This paper would not have been possible without the guidance and help of several individuals who in one way or another contributed and extended their valuable assistance in the preparation and completion of this study.

I started this internship report and finally, it has been completed. Special thanks to my helpful supervisor Mr. Md. Ejaj-Ur-Rahaman, Assistant Professor, Department of Business Administration, Faculty of Business and Entrepreneurship, Daffodil International University.

I would like to express my gratitude towards my supervisor and my experience online of observing the impact of a firm's profitability on stock price return for kind encouragement which has helped me in the completion of this report. This report is an essential part of the BBA program as one cannot gather educational knowledge and experience without observing and doing work on chosen this topic.

I would like to express my special gratefulness and thanks to all online platforms for finding anything so easily. This report made me realise the value of working as a new experience from the online platform.

Executive Summary

This paper concentrates on internship experience as well as the financial performance assessment of Al-Arafah Islami Bank. To get insight into the realistic banking experience, it is relevant to engage with an internship program which enhances knowledge regarding the functions of banks. The bank engaged with Islami Shariah principles regarding the guidelines and regulatory requirements. In terms of risk management and investment, the bank collects deposits as investments from the clients and invests the amounts in specific portfolios to generate profits.

Ratio analysis assists in measuring the economic indicators of an organization by comparing the organization with competitors as well as getting insights into the financial conditions. In terms of liquidity ratio, the capability of satisfying current liabilities with current assets is proportionately measured. Profitability ratios show the possibility of earning growth by evaluating net profit margin, gross profit margin, and so on. Whereas, the efficiency ratios decompose the circumstances of how much the company utilises its resources effectively to generate optimum outcomes.

The ratio analysis of the bank indicates that the overall financial ratio is not perfect for the industrial benchmark. The liquidity ratio like the cash ratio and current ratio for 2019 to 2023 follows a decreasing rate overall which means the company can face liquidity problems in the future. The overall profitability ratio of the bank is not satisfactory compared to the industrial benchmark which indicates that the company is not generating sufficient profit according to the investment.

Common size analysis demonstrating that cash in hand was lower in 2019 to 2021 but it has increased in 2022 and 2023 compared to total assets. In addition, net income decreased compared to investment income from 2019 to 2023. The trend analysis shows that most of the items in the balance sheet increasing compared to 2019. In the case of the income statement, trend analysis represents that investment income increased lower than profit paid on deposits compared to 2019 to 2023 which resulted in a downward sloping in net income for the bank.

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Chapter 01: Introduction

1.1 Introduction

Performance analysis to demonstrate the economic condition by utilizing multiple variables relevant to financial statements is characterized as financial performance analysis. Associated variables regarding financial performance include profit margin, asset turnover, cash ratio, leverage, inventory turnover ratio, and so on. Financial performance analysis assists in measuring the aggregate periodical performance analysis to determine the level of success of an organization. It provides supporting guidelines in the case of key decision-making of a business organization. In addition, financial performance analysis generates capabilities regarding problem-solving, goal-setting, management of operating functions, and so on. Multiple benefits are engaged with the analysis of the financial performance of a business entity including smooth decision-making, risk management, future budget setting, business forecasting, and so on. Several issues exist regarding financial performance analysis such as lack of knowledge of financial terms, data lag, inappropriate estimation, and so on.

This paper demonstrates the financial performance analysis of Al-Arafah Islami Bank PLC for the financial year 2018 to 2022. This analysis includes ratio analysis, profitability ratio, liquidity ratio, DuPont factor, trend analysis, and so on in terms of Al-Arafah Islami Bank. The theoretical perspectives of this study include SWOT analysis, company overview, vision and mission, trend analysis, and so on.

1.2 Background of the study

This internship is associated with the full-credit basis to the subject in terms of BBA which reflects real life as well as theoretical perceptions.

I have engaged with the BBA program of the Daffodil International University. I have finished my internship period and am required to generate internship reports. This report is characterized as a full-credit course to my BBA program which is generated by me. The associated topic for completing this internship report is recognized as "The Financial Performance Analysis of Al-Arafah Islami Bank PLC" for the financial year 2018 to 2022.

1.3 Scope of the study

The scope of this study includes the factors which will be covered within this report. The factors include the financial performance and theoretical perspectives of Al-Arafah Islami Bank. The scopes can be determined as follows:

- Implementation of trend analysis
- Implementation of ratio analysis
- Common size assessment
- Implementation of DuPont analysis
- Implementation of SWOT analysis

1.4 Objectives of the study

1.4.1 General objectives

The primary objective of this report is to assess the financial performance of Al-Arafah Islami Bank.

1.4.2 Specific objectives

The specific objectives of this study include:

1. To assess the financial performance utilizing ratio analysis for the income years from 2019 to 2023.
2. To compare financial performance using common size and trend analysis, and to identify patterns in key items of the bank's financial statements.
3. To generate actionable recommendations to address issues related to the financial performance of Al-Arafah Islami Bank.

1.5 Methodology

While performing the internship period, secondary data were required to be collected for this analysis. This report includes a quantitative analysis for the assessment of the financial performance of Al-Arafah Islami Bank.

Secondary sources in terms of gathering data include:

- Corporate website of the bank
- Annual published reports
- Relevant books

To conduct the assessment of the financial performance of the bank, quantitative measurement will be applied. The utilized methods include:

- MS Excel

1.6 Limitations of the study

Several limitations existed during the preparation of this report. The limitations include:

- Lack of time
- Lack of required documents
- Personnel of the bank not sufficiently free to discuss
- Realizing policy implementation and documentation of the bank is not so easy

Chapter 02: Corporate overview and theoretical perspectives

2.1 Company background

Al-Arafah Islami Bank is performing banking activities in Bangladesh based on the Islamic Shariah guidelines. The bank is associated with policies which specify that it does not provide interest. Rather, it is based on profit-sharing policies in which clients of the bank participate in the earnings. Al-Arafah Islamic Bank initiated banking functions in 1995 and was realized as a private limited company. While incorporating the banking business, the authorized capital of Al-Arafah Islamic Bank is considered as BDT. 15,000 million. In the case of paid-up capital, the bank is associated with BDT. 10,649.02 million. The associated sponsors of the bank are recognized as famous Islamic scholars as well as sincere businessmen. The bank effectively and efficiently generates banking services as well as multiple unique products for their clients which support to corporate mission and vision.

Figure: Overview of Al-Arafah Islami Bank

The bank is providing services by following cost-effective and quality enhancement within Bangladesh. There are a total of 4247 personnel associated with the operational as well as functional activities of the bank. The associated personnel of the bank are fully trained as well as knowledgeable which supports the bank in implementing strategic decisions as well as ensuring higher financial performance. A total of 211 branches exist in Bangladesh which generating effective banking services. Each branch of the bank periodically reports financial information to ensure the availability of financial data. As a consequence, it is supporting to generate the assessment of financial performance and improving the associated issues by developing effective strategies. The regulatory guidelines in the case of operational and functional activities of the bank emphasized the regulatory guidelines generated by Bangladesh Bank in 2009. There are multiple competitors for Al-Arafah Islami Bank existing in Bangladesh including Islami Bank Bangladesh Limited, EBL, DBBL, and so on performing banking activities.

2.1.1 Corporate Vision

Corporate vision is characterized as a straightforward, encouraging proclamation that highlights its ongoing intentions and the contribution it seeks to possess in the coming years. It functions as an indication of light, empowering personnel, integrating initiatives, and supplying a definite roadmap for expansion and advancement. A motivating vision combines members toward one target and generates an experience of shared identity. It embodies the bank's straightforward principles, and forward-thinking, and outlines challenging yet achievable targets.

Figure: Vision of Al-Arafah Islami Bank

The corporate vision of Al-Arafah Islami Bank emphasized on development of macroeconomic growth in Bangladesh as well as promoting effective banking services based on Islamic Sharia's guidelines.

2.1.2 Corporate Mission

A corporate mission is considered a simple, straightforward description of a business's intention, primary targets, as well as tactics for obtaining them. It governs day-to-day management as well as tactical choice-making by establishing the business's objective, and target market, along with technique for value offering.

The corporate mission of Al-Arafah Islami Bank includes the following factors:

- Receiving Almighty Allah's fulfilment in the present day alongside the afterlife.
- enlargement of financial services guided by Shariah.
- Superior financial offerings embracing cutting-edge technological advances.
- timely and productive client response.

- sustaining thorough business righteous guidelines.
- harmonious progression.
- An ongoing and reasonable profit for investors.

2.2 Assessment of Financial Performance

Financial performance assessment indicates the evaluation of corporate performance based on available information from the financial statements of a business organization. It includes an analysis of corporate feasibility by realizing ratio analysis, efficiency ratios, profitability ratios, as well as liquidity ratios. Accounting information from corporate documents such as income statements, cash flow statements, balance sheets, as well as owner equity statements are utilized regarding the evaluation of financial performance. This assessment aids investors of Al-Arafah Islami Bank by clarifying the business's economic state of affairs, recognizing trends, reviewing functional productivity, as well as generating well-informed judgments about investments, money management, and corporate planning.

2.2.1 Ratio analysis

The term “Ratio analysis” is characterized as an accounting procedure that assesses evidence from the accounting records for evaluating the efficiency and economic sustainability of an operation. Obtain views into several organizations’ traits, comprising figuring out multiple kinds of accounting ratios. By allowing stakeholders an accounting platform to judge corporate performance, multiple tools are utilized including liquidity ratios, solvency ratios, profitability ratios, and so on. Ratio analysis of Al-Arafah Islami Bank will guide its investors regarding decision-making strategy because it demonstrates the corporate scenario which discloses financial information and the results of the strategic decision of the bank. After engaging with ratio analysis, both internal and external participants of the bank will benefit because it will assist in determining the decision-making feasibility and the equity position of the bank. Internal parties of the bank such as the management team can utilize ratio analysis for determining the level of growth and vice versa. As a result, the management team of the bank will be able to select the strategy to solve any issues due to poor performance. External parties of the bank such as investors or clients can utilize ratio analysis to decompose profitability as well as liquidity level.

2.2.2 Liquidity ratios

Financial parameters identified as liquidity ratios are generally intended to examine a business's ability to cover short-term repayments utilizing its highest marketable holdings. These metrics represent an organization's competence to settle up existing lenders without requesting extra resources, therefore revealing the spotlight on its organizational productivity along with economic sustainability. In the case of Al-Arafah Islami Bank, participants can utilize financial information to generate liquidity ratios and make strategic decisions regarding the capability of fulfilment of financial obligations. Liquidity ratios can be characterized as two types including current ratio and quick ratio. The formula can be as follows:

Current Ratio = $\frac{Current\ Assets}{Current\ liabilities}$

Quick Ratio = $\frac{Cash\ and\ cash\ equivalents}{Current\ liabilities}$

Current ratio: This ratio decomposes the relationship between current assets and current liabilities in terms of reflecting the ability of fulfilment to the financial obligation. It indicates the bank's circumstances in which current liabilities are offset by current assets. A comparatively higher ratio indicates a higher liquidity level for the bank.

Quick Ratio: The term "Quick Ratio" in the case of a bank indicates the relationship between cash and cash equivalent to current liabilities which demonstrates the capability to settle obligations immediately. The quick ratio is considered a superior indicator in comparison to the current ratio because it emphasises current assets which can be immediately utilized as cash or alternatives of cash.

2.2.3 Profitability Ratios

Profitability ratios are characterized as a measurement technique of the financial condition of an organization. In profitability measurement, multiple financial ratios are utilized such as gross profit margin, return on equity, net profit margin, return on assets, as well as operating profit margin. Profitability ratios assist in determining the efficiency and effectiveness of the financial policies of an organization. Investors can apply the profitability ratio to evaluate the financial performance of an organization to compare with the competitor of the company and make investment decisions. The management team of a company utilize profitability ratios to demonstrate its financial position in the market as well as forecast the future performance of the company. The term "Gross Profit Margin" which is also known as GPM can be determined by dividing the gross profit by sales of the company. The term "Operating Profit Margin" can be determined by dividing the operating profit by the sales for the financial year. Net profit margin needs to be determined by dividing net profit by sales. ROA can be determined by dividing net income by total assets. In addition, ROE can be determined by dividing net income by the common equity of an organization.

The formula to determine profitability ratios can be as follows:

GPM = $\frac{Gross\ Profit}{Sales}$

OPM = $\frac{Operating\ Profit}{Sales}$

NPM = $\frac{Net\ Profit}{Sales}$

ROA = $\frac{Net\ Profit}{Total\ assets}$

ROE = $\frac{Net\ Income}{Equity}$

2.2.4 Operating Efficiency Ratios

The potential of an entity to consistently transform its assets into earnings and sales is termed operating efficiency. It determines how properly a business utilises its assets— such as workforce, equipment, as well as overhead—to deliver products and offerings. A business with outstanding operating efficiency enhances output whereas eliminating waste products, therefore enhances competitiveness and maximizes resource usage. Rising rivalry, cutting expenditures, and accomplishing long-term success all rely on boosting operating efficiency.

To determine operating efficiency, the following ratios can be utilized:

Current Asset Turnover = $\frac{Net\ Sales}{Current\ Assets}$

Total Asset Turnover = $\frac{Net\ Sales}{Total\ Assets}$

Equity multiplier = $\frac{Net\ Sales}{Total\ Equity}$

Fixed Asset Turnover = $\frac{Net\ Sales}{Total\ Fixed\ Assets}$

Debt Ratio = $\frac{Total\ Liability}{Total\ Assets}$

However, the operating efficiency of an organization depends on multiple factors such as current asset turnover, total asset turnover, fixed asset turnover, as well as equity multiplier. Net sales need to be divided by total equity to determine the equity multiplier. The net sales are required to be divided by total assets to generate a total asset turnover ratio. In determining the current asset turnover ratio, the sales need to be divided by the current assets of an organization. In addition, net sales are required to be divided by fixed assets for generating fixed asset turnover ratios.

2.2.5 DuPont Factors Analysis

DuPont factors are considered financial performance measurement techniques by analyzing the impact of profits, assets, and equity on the productivity and performance of an organization. It includes three key ratios to decompose its effectiveness on corporate success. The three key ratios are indicated as total asset turnover, equity multiplier, as well as profit margin. The three factors are utilized in determining the return on equity of an organization. Total asset turnover indicates the proportion of income generated by utilizing the available total assets of an organization. Profit margin indicates the proportion of net income which is generated by providing services or selling products. In addition, the equity multiplier indicates the circumstances in which total equity is converted to total assets or total assets financed by the investment of shareholders.

The formula for determining DuPont analysis is as below:

ROE = Profit Margin * Asset Turnover * Equity Multiplier

DuPont factors utilized generating the level of effectiveness of corporate strategy by comparing profit margin, asset turnover, as well as equity multiplier. In this process, Return on Equity is determined by multiplying the three key factors which is equal to the conventional ROE of an organization.

2.3 Common size analysis

Common size analysis is characterized as an assessment tool in which the financial statements of an organization are utilized in evaluating financial performance. In this process, the base figure is utilized to compare with other elements of the financial statements of an organization. In common size assessment, the items associated with the balance sheet of an organization can be evaluated compared to a based figure such as total assets. The whole item in the balance sheet will be compared to total assets in proportional format. For the common size assessment of the income statement, total revenue is utilized in comparing the other items of the statement. Here, total revenue is utilized as the base figure for the income statement. In this case, every item of the income statement will be demonstrated as a percentage of total revenue like operating profit is proportional to total revenue.

It is effective for benchmarking corporations of various types, recognizing alterations to cost framework, as well as recognizing patterns throughout the years. It permits setting benchmarking criteria against the associated industry customs, uncovers zones of deficiencies and strengths, as well as contributes to tactical preparation. Common size analysis presents a stronger standpoint of budgetary progress and conditions by altering actual statistics into proportions, resulting in enabling more advised decision-making. I have formulated a common size analysis based on the balance sheet and income statement of Al-Arafah Islami Bank.

2.4 Trend analysis

Trend analysis is characterized as an assessment technique of the financial statements of an organization. Trend analysis can be performed based on the balance sheet items and income statement items. This analysis assists in projecting future success, reviewing the usefulness of corporate efforts, along formulating well-informed judgements by emphasizing uphill or adverse patterns. Setting long-term objectives to strengthen commercial consistency and fulfilment, projecting barriers and pinpointing advancement potential all rely on the appropriate implementation of trend analysis.

I have utilized the financial statements of Al-Arafah Islami Bank to incorporate trend analysis. In this analysis, I can use the determined pattern of income or assets to find out next year's income or the impacts of balance sheets.

2.5 SWOT analysis

SWOT analysis can be realized as a theoretical framework for evaluating and determining performance in terms of a competitive nature. SWOT analysis assists in generating ideas regarding the advantages and drawbacks of the corporate policy of an organization. In this case, I have utilized data from Al-Arafah Islami Bank to generate ideas regarding the business's effectiveness.

Strength: The factor "Strength" is characterized as the tools which are utilized as a backup for an organization and perform business operations continuously. It includes the tools which generate competitive advantages in operating for an organization. The strength of Al-Arafah Islami Bank can be determined as below:

- Implementation of Shariah-based financing and banking activities
- Qualified investment in current assets
- Corporate image
- Positive customer perception
- Followed diversification in developing product line

Weakness: When an organization faces lower growth due to external factors is characterized as the factors of weakness. Associated weakness for the business of Al-Arafah Islami Bank can be illustrated as below:

- Market share is significantly low
- Few ATMs exist compared to market competitor
- Expectation gap exists in profitability
- Insignificant financial ratios like cash ratio

Opportunity: New possibilities to initiate new policies for business or favourable circumstances which can positively facilitate corporate growth are designated as opportunities. The opportunities for Al-Arafah Islami Bank can be as below:

- The bank can ensure involvement with modernization to increase positivity in clients
- The bank can engage with policy selection to increase ATM booth
- Higher level of involvement in e-banking activities
- Open new branches in rural areas where the market is effective compared to competitors

Threats: The external factors which can be demonstrated as possible drawbacks and decrease corporate effectiveness can be determined as threats. The threats associated with the business of Al-Arafah Bank can be realized as below:

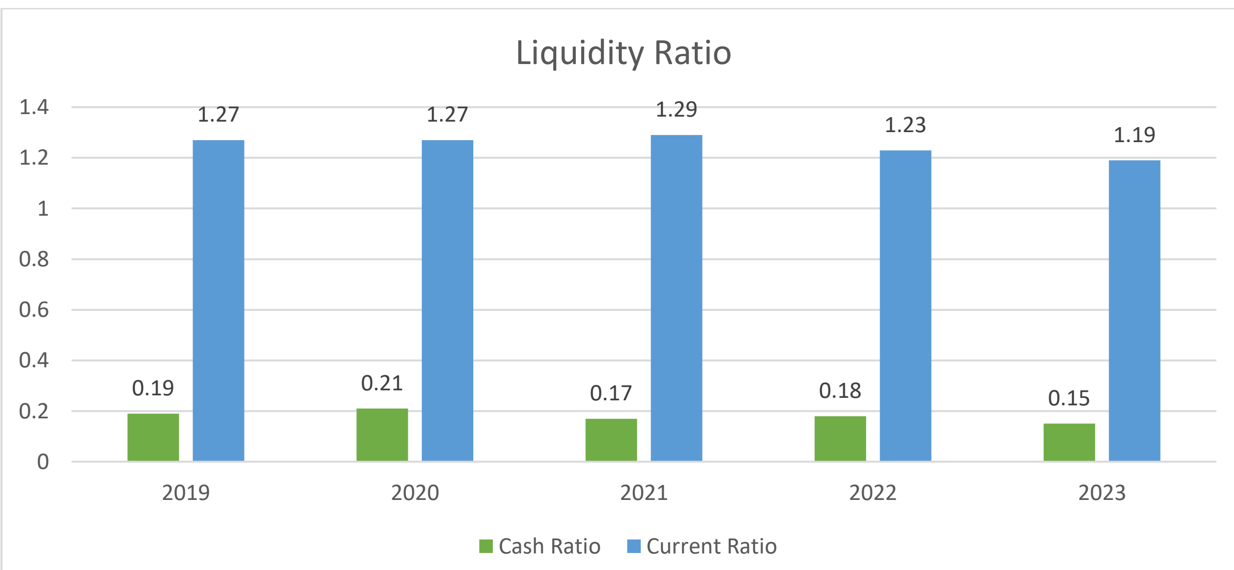
- Initiation of business activities by new banks can decrease profitability
- Localization like local competitors can get a higher advantage which can hinder success
- Lack of effective management regarding policy implementation and application
- Higher competition

Chapter 03: Financial Performance of Al-Arafah Islami Bank Limited

3.1 Liquidity Ratio

The financial measurement identified as liquidity ratio is typically utilized to figure out how effectively a corporation can employ its highest liquid resources to satisfy its short-term liabilities. It determines how efficiently a corporation can transform its property into cash for repayment of obligations that are scheduled within twelve months. To evaluate repayment ability to the financial obligations, two methods are applied in terms of liquidity ratio which is known as cash ratio as well as current ratio.

Liquidity ratios					
Particulars	**2019**	**2020**	**2021**	**2022**	**2023**
Cash Ratio	0.19	0.21	0.17	0.18	0.15
Current Ratio	1.27	1.27	1.29	1.23	1.19



The cash ratio of Al-Arafah Islami Bank is considered as downward sloping for the financial year 2019 to 2023. In 2019, the bank had a cash ratio of 0.19 which means that the bank holds 19% cash compared to liabilities. So, 19% of the financial obligation can be settled in 2019. 2020 and 2021, it is determined as 0.21 and 0.17 which means 21% and 17% of the liabilities can be settled immediately. In 2022 and 2023, it is considered as 0.18 and 0.15 which indicates 18%

and 15% of liabilities can be settled for the respective years. The current ratio holds the possibility to settle liabilities by utilizing current assets. In 2019 and 2020, it is determined as 1.27 for both years. So, current assets are higher than current liabilities. After 2021, the current ratio will decrease to a significant level which is not favorable to settle current liabilities immediately. Based on the liquidity ratios, it can be observed that the bank is facing a decreasing rate of liquidity which is not a positive sign for the effectiveness of the corporate policy.

3.2 Operating Efficiency Ratio

The operating efficiency ratio in terms of Al-Arafah Islami Bank can be evaluated by determining equity turnover and asset turnover ratios. It assists in justifying the effectiveness of the operating functions of an organization.

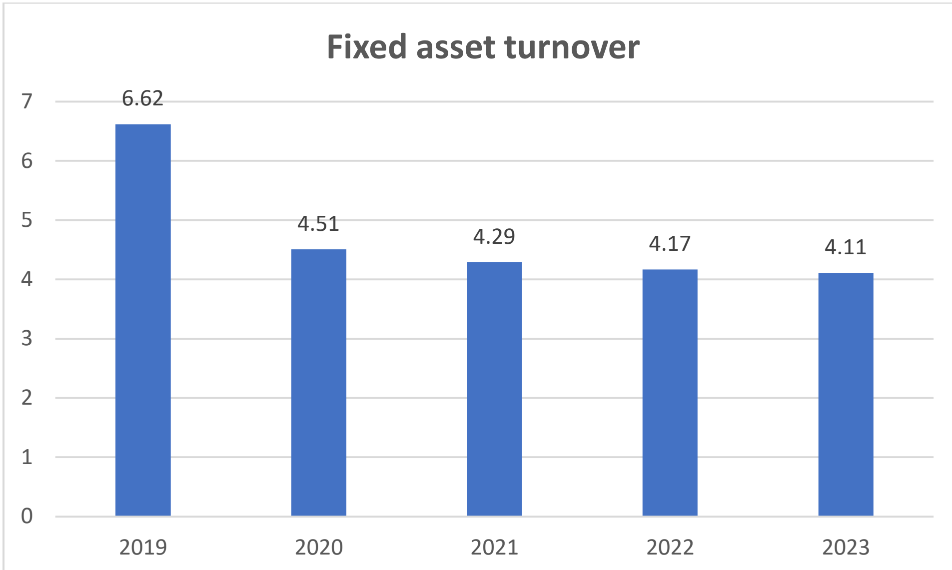
Operating Efficiency					
Particulars	2019	2020	2021	2022	2023
Equity turnover	1.19	1.03	0.91	0.97	1.18
Current asset turnover	0.06	0.06	0.05	0.035	0.04
Total asset turnover	0.08	0.06	0.05	0.047	0.055
Fixed asset turnover	6.62	4.51	4.29	4.17	4.11
Debt Ratio	0.9366	0.9391	0.9440	1.25	1.22

Equity turnover: The ratio from 2019 has followed a downward slope till 2021 which is 1.19, 1.03, and 0.91 consecutively. In 2022, the ratio started to increase which is 0.97. The ratio is considered as 1.18 in 2023 which indicates growth in equity turnover of the company.

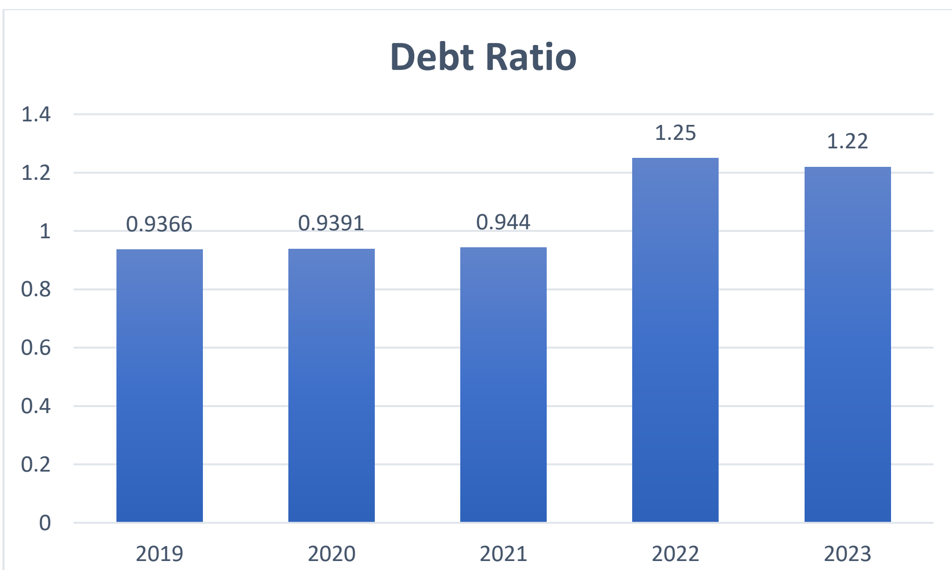
Current asset turnover: The ratio for the bank is considered the same for 2019 and 2020 which is 0.06. in 2021, the ratio decreased to 0.05 and it follows a decreasing rate till 2022. In 2023, the ratio again started to increase.

Total asset turnover: The ratio for the bank considered negative growth from 2019 to 2022. In 2023, the ratio again started to increase.

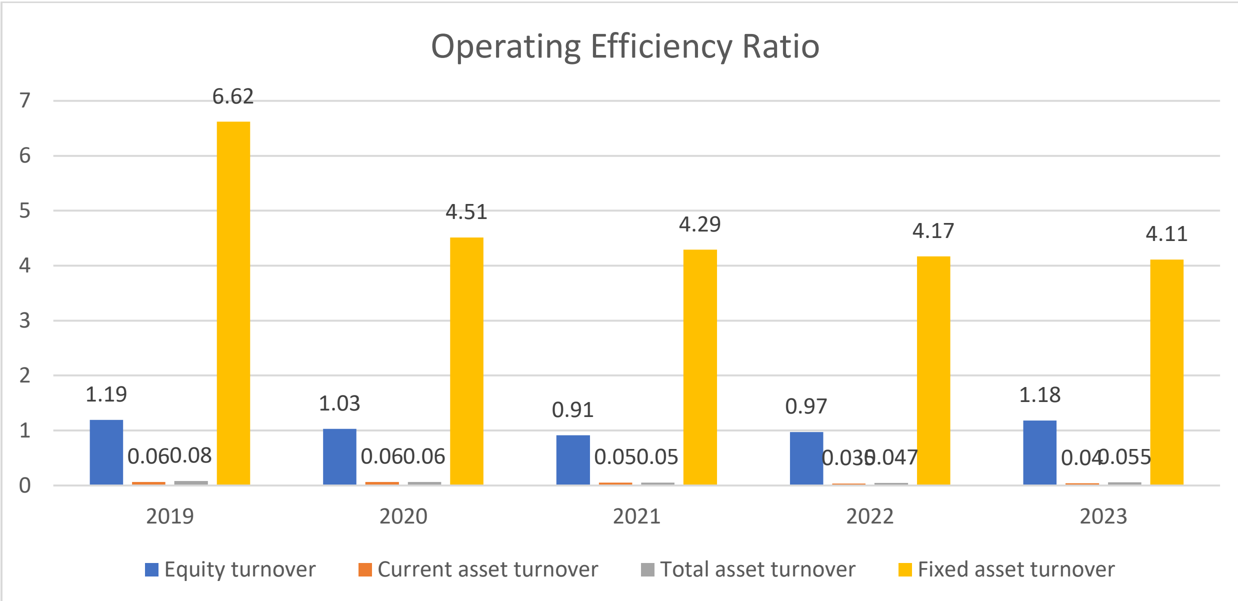
Fixed asset turnover: The ratio is downward sloping for the bank from 2019 to 2023 which means the bank continuously decreases its fixed assets compared to liabilities.



Debt ratio: The ratio is considered as increasing growth from 2019 to 2022. In 2023, the ratio decreased to 1.22 which is lower compared to that of the previous year.



Comparison of ratios



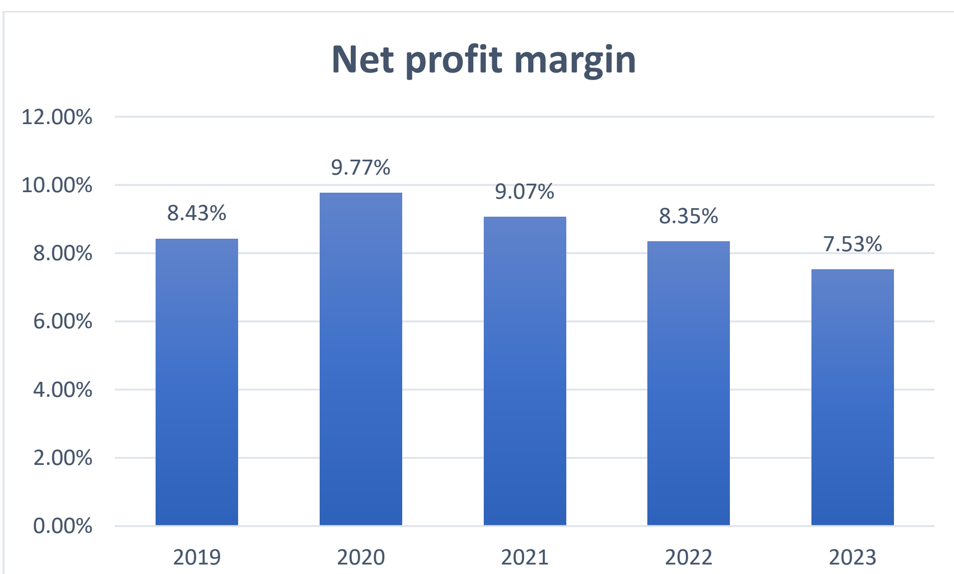
Equity turnover for the bank is considered as 1.19 and 1.03 for the financial years 2019 and 2020. In 2021, the equity turnover decreased to 0.91. In 2022 and 2023, the equity turnover again increased to 0.97 and 1.18. The benchmark in case of equity turnover for an organization is considered as 2. However, the equity turnover for the bank results in lower than 2 for 2019 to 2023. So, the bank can be levelled as risky for investment. In the case of current asset turnover, it also follows a downward slope from 2019 to 2023. The bank faced 0.06 in current asset turnover in 2019 but it continuously decreased in the next years. The standard total asset turnover is considered as 2.5 or more but the bank has a total asset turnover lower than 1. So, the bank again facing difficulties in recovering investments. It means the bank is getting a lower return compared to the total assets it has invested. The fixed asset turnover was 6.62 in 2019 and continued to decrease over time and it is 4.11 for 2023. Though the bank follows a decreasing rate, it has maintained a benchmark which is 2.5 or more. The debt ratio of the company follows an upward slope from 2019 to 2022 but a bit downward slope in 2023. However, the fixed asset turnover for the bank is only favourable because it maintained the industry benchmark. Where the other ratios are lower than the benchmark which indicates higher risk for investment. So, the overall operating efficiency is not good for the bank.

3.3 Profitability Ratio

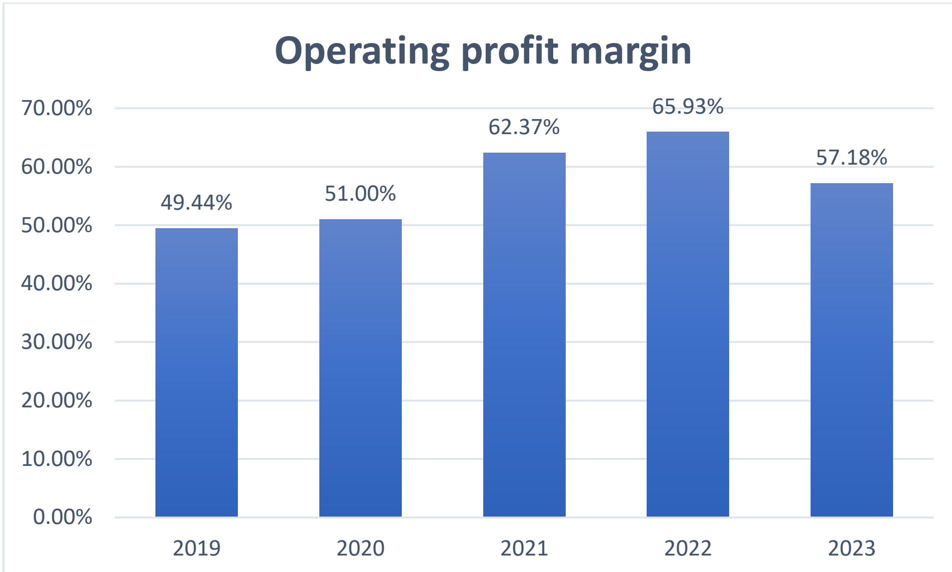
The profitability ratio demonstrates the capability of an organization to transform investments into profits. It indicates the level of proper utilization of assets to generate profits. The profitability ratio for Al-Arafah Islami Bank includes ROA, NPM, GPM, ROE, and OPM.

Profitability Ratios					
Particulars	**2019**	**2020**	**2021**	**2022**	**2023**
Net profit margin (NPM)	8.43%	9.77%	9.07%	8.35%	7.53%
Operating profit margin (OPM)	49.44%	51.00%	62.37%	65.93%	57.18%
Gross profit margin (GPM)	35.43%	37.12%	44.24%	36.13%	32.26%
Return on Equity (ROE)	10.05%	10.10%	8.21%	8.13%	8.89%
Return on Assets (ROA)	0.64%	0.61%	0.46%	0.52%	0.53%

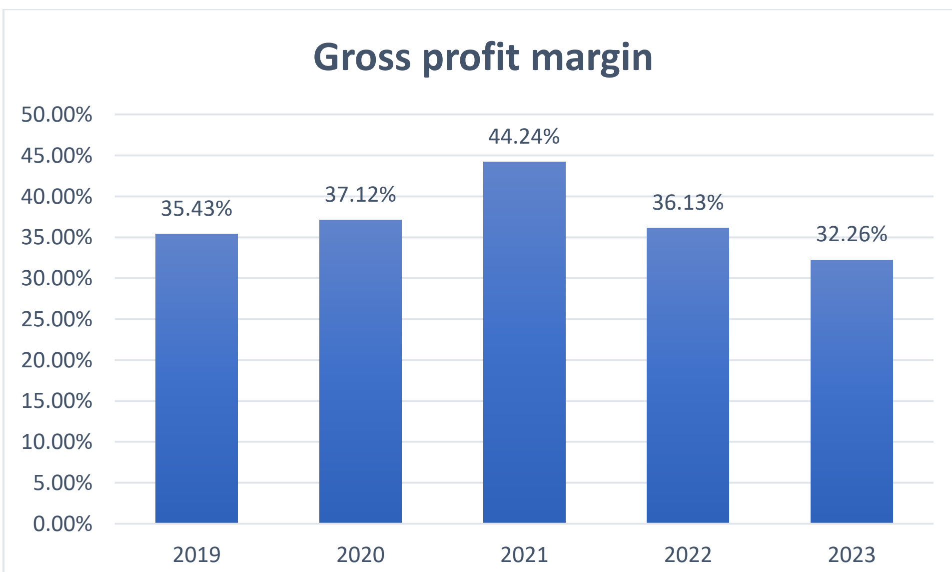
Net profit margin: From 2019 to 2020, this ratio increased by 1.34%. However, the ratio continued to decrease from 2020 to 2023.



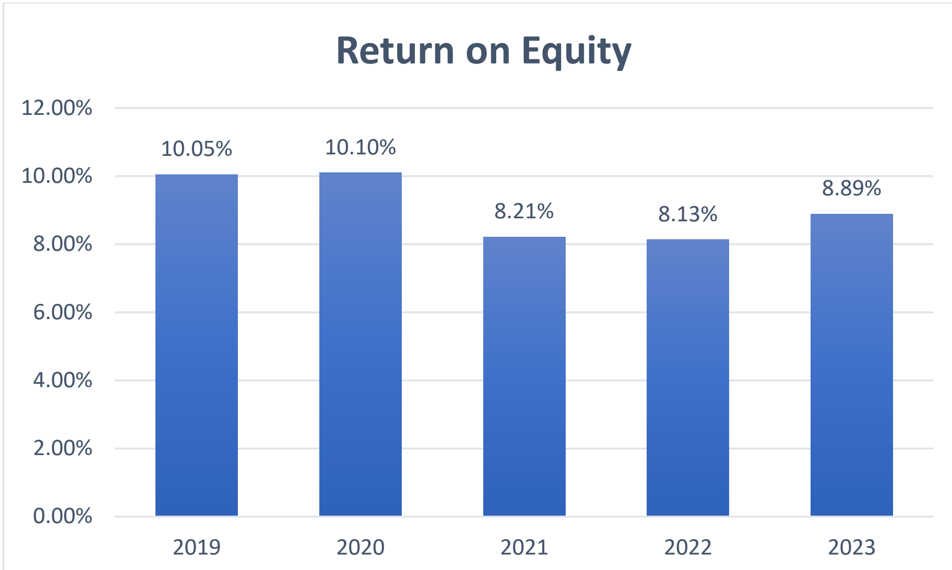
Operating profit margin: From the financial year 2019 to 2022, the operating profit margin of the bank followed an increasing rate of growth. But it decreased in 2023 which is 57.18%.



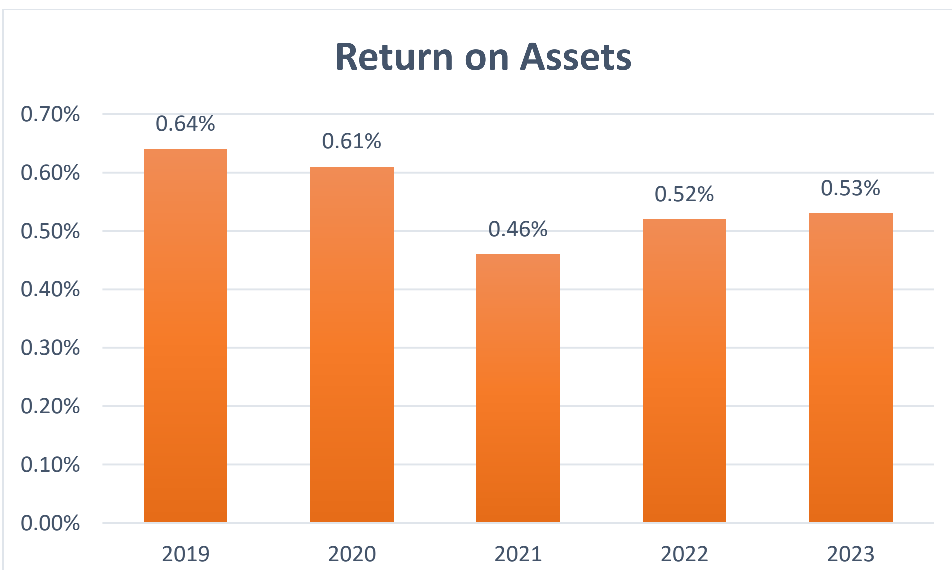
Gross profit margin: The ratio from 2019 to 2021 engaged with an increasing rate but it has faced a decreasing rate of growth from 2021 to 2023.



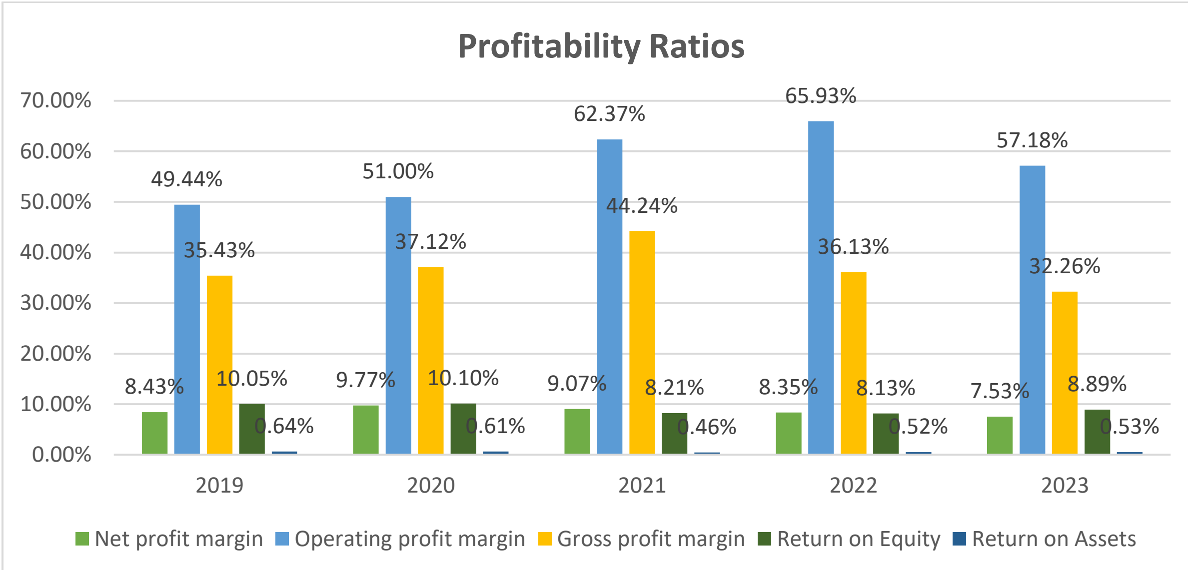
Return on equity: The ROE of the bank realized negative growth from 2019 to 2022. But it has faced positive growth in 2023 which is 8.89%



Return on assets: The ROA of the bank was 0.64% in 2019 and continued to decrease till 2021. But it has faced a bit increase from 2022 to 2023.



Comparison of ratios



The NPM for the bank for 2019 is considered 8.43% whereas it is 9.77% for 2020. The NPM is determined as 9.07%, 8.35%, and 7.53% for the financial year 2021, 2022, and 2023 consecutively. The industrial benchmark for NPM is considered 10% as healthy for an organization. But it is below 10% for the bank which means the bank has low NPM. In the case of OPM, the industrial benchmark is considered as 10% to 20% where the company has gained above 20%. So, OPM is suitable for the bank. The industrial benchmark for GPM is considered 50% to 70%. But the bank has lower than 45% in all the selected financial years. So, it has a weak point in terms of GPM. In the case of ROE, the industrial benchmark is recognized as 15% to 20%. But the bank has below 15% in all the financial years. So, it also indicates another weak point for the bank. The industrial benchmark for ROA is recognized as 5% or over as good. But the bank again failed to fulfil this criterion. So, it can be determined that the has a problem regarding the management of profitability because it has failed to maintain industrial benchmarks in most of the cases.

3.4 Three Factor DuPont Analysis

The factor DuPont model assists in determining variables which cause the return on equity of an organization to change. In this model, NPM, TAT, and EM are utilized to demonstrate the effects of changes to ROE.

Three-Factor DuPont Analysis					
Particulars	2019	2020	2021	2022	2023
Net Profit Margin	0.0843	0.0977	0.0907	0.0835	0.0753
Total Asset Turnover	0.08	0.06	0.05	0.047	0.055
Equity Multiplier	15.78	16.43	17.86	15.69	16.87
ROE	10.05%	10.10%	8.21%	8.13%	8.89%

For Al-Arafah Islami Bank, the most change happened in the case of TAT compared to NPM and EM. In 2020, the ROE of the bank increased but TAT decreased. The reason behind the change is the increase in NPM and EM. TAT decreased continuously but it was reflected in 2021 where the ROE is determined as 8.21% due to a slight decrease in TAT by 0.01%. However, the bank can increase ROE by increasing any ratio of this model which is reflected in the above table.

3.5 Common Size Analysis

3.5.1 Common Size Analysis of Balance Sheet

Common size of balance sheet										
Particulars	**2019**	**%**	**2020**	**%**	**2021**	**%**	**2022**	**%**	**2023**	%
Cash in hands (Including foreign currencies)	3063.285	0.80%	2898.21	0.69%	3232.05	0.70%	4941.934	1.21%	5024.42	1.12%
Balance with Bangladesh Bank and its Agent Banks (Including foreign currencies)	27705.4	7.27%	28660.9	6.85%	20456.6	4.42%	26693.13	6.56%	21693.2	4.85%
Balance with other Banks and Financial Institutions										
In Bangladesh	5473.391	1.44%	8288.03	1.98%	3133.65	0.68%	2853.788	0.70%	3408.45	0.76%
Outside Bangladesh	6120.224	1.61%	8273.81	1.98%	8907.48	1.93%	10010.631	2.46%	7120.87	1.59%
	11593.62	3.04%	16561.8	3.96%	12041.1	2.60%	10296.01	2.53%	7120.84	1.59%
Placement with Banks and Other Financial Institutions	12000	3.15%	14270	3.41%	23985	5.18%	79789.9	19.61%	82500	18.45%
Investment in Share and Securities	16170.52	4.24%	21563.7	5.16%	30156.1	6.52%	36946.92	9.08%	47316.3	10.58%
Government	14500	3.81%	19583.8	4.68%	23504.9	5.08%	27410.28	6.74%	33910.3	7.58%
Others	1670.52	0.44%	1979.84	0.47%	6651.2	1.44%	9536.64	2.34%	13406	3.00%
Investments	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
General Investments etc.	274017	71.91%	296718	70.93%	323343	69.88%	384403	94.50%	421320	94.23%
Bills purchased and discounted	14468.99	3.80%	11902.8	2.85%	13547.9	2.93%	22384.72	5.50%	25801.2	5.77%
	288486	75.71%	308621	73.78%	336891	72.81%	606787.7	149.17%	447121	100.00%
Fixed assets less Accumulated Depreciation	4351.927	1.14%	5833.88	1.39%	5470.27	1.18%	5144.429	1.26%	5010.42	1.12%
Other Assets	17630.17	4.63%	19838.6	4.74%	30404.3	6.57%	35016.09	8.61%	31380.5	7.02%
Non-banking Assets	50.87504	0.01%	50.875	0.01%	50.875	0.01%	50.87504	0.01%	50.875	0.01%
Total Assets	381051.8	100.00%	418299	100.00%	462687	100.00%	406787.7	100.00%	447121	100.00%

Liabilities and Capital										
Liabilities										
Placement from Banks and Other Financial Institutions	27546.38	7.23%	24000.5	5.74%	32506.8	7.03%	54123.24	10.12%	61352.7	10.70%
Deposits and Other Accounts										
Mudaraba Savings Deposits	45211.43	11.86%	54879.1	13.12%	62011	13.40%	69141.33	12.93%	64023.4	11.17%
Dudaraba Term Deposits	162587.9	42.67%	164010	39.21%	175485	37.93%	193084.5	36.11%	209448	36.53%
Other Mudaraba Deposits	55156.1	14.47%	66744	15.96%	68093.1	14.72%	68952.55	12.89%	61872.4	10.79%
Al-wadeeah Current Accounts and Other Accounts etc.	30701.54	8.06%	37331.4	8.92%	43639.2	9.43%	58456.92	10.93%	70747.9	12.34%
Bills Payable	3584.859	0.94%	3059.38	0.73%	4059.48	0.88%	4410.444	0.82%	4303.07	0.75%
	297241.8	78.01%	326023	77.94%	353288	76.36%	394045.8	73.69%	419395	73.15%
Other Liabilities	25157.58	6.60%	31485.7	7.53%	36298.4	7.85%	44615.11	8.34%	50023.1	8.73%
Deferred tax Liabilities/(Assets)	157.833	0.04%	133.204	0.03%	93.5952	0.02%	44.41686	0.01%	40.2378	0.01%
AIBL Mudaraba Bond	6800	1.78%	11200	2.68%	14600	3.16%	16010	2.99%	16000	2.79%
Total Liabilities	356903.6	93.66%	392843	93.91%	436787	94.40%	508838.6	95.15%	546811	95.38%
Capital/Share holder's Equity										
Paid-up Capital	10649.02	2.79%	10649	2.55%	10649	2.30%	10649.02	1.99%	10968.5	1.91%
Statutory Reserve	9379.989	2.46%	10334.6	2.47%	10649	2.30%	10649.02	1.99%	10968.5	1.91%
Revaluation Reserve	938.6189	0.25%	1084.33	0.26%	1084.33	0.23%	1084.971	0.20%	1084.17	0.19%
Retained Earnings	1531.42	0.40%	1732.14	0.41%	1823.37	0.39%	1841.051	0.34%	1802.54	0.31%

Total Equity attributable to Equity holders of the Bank	22499.05	5.90%	23800.1	5.69%	24205.8	5.23%	24224.06	4.53%	24823.7	4.33%
Non-controlling interest	1649.161	0.43%	1655.73	0.40%	1694.59	0.37%	1693.428	0.32%	1673.93	0.29%
Total Equity	24148.21	6.34%	25455.8	6.09%	25900.3	5.60%	25917.49	4.85%	26497.6	4.62%
Total Liability and Shareholders equity	381051.8	100.00%	418299	100.00%	462687	100.00%	534756.1	100.00%	573309	100.00%

In the case of common size analysis, it is required to set common figures as total assets to reflect the impacts of the underlying factor in balance sheets. In addition, liability and equity can also be utilized as common figures due to the same balance. In the analysis, it is observed that cash in hand decreased in 2020 and 2021. But it has increased in 2022 and 2023. This impact is also reflected in other variables where it increased or decreased.

3.5.2 Common Size Analysis of Income Statement

Common size analysis of income statement										
Particulars	2019		2020		2021		2022		2023	
Investment Income	28811.65	100.00%	26331.3	100.00%	23446	100.00%	25221.41	100.00%	31299.7	100.00%
Profit paid on deposits	-18604.4	-64.57%	-16557	-62.88%	-13073	-55.76%	-16109.6	-63.87%	-21201	-67.74%
Net Investment Income	10207.24	35.43%	9774.63	37.12%	10373.2	44.24%	9111.76	36.13%	10098.5	32.26%
Income from Investment in Shares /Securities	770.633	2.67%	681.938	2.59%	359.555	1.53%	107.6657	0.43%	200.988	0.64%
Commission, Exchange and Brokerage	2916.08	10.12%	2627.55	9.98%	3299.11	14.07%	5639.647	22.36%	4612.48	14.74%
Other Operating Income	350.8581	1.22%	345.976	1.31%	591.502	2.52%	800.6121	3.17%	1176.57	3.76%
	4037.571	14.01%	3655.46	13.88%	4250.17	18.13%	7516.917	29.80%	7798.92	24.92%
Total operating income	14244.81	49.44%	13430.1	51.00%	14623.4	62.37%	16628.68	65.93%	17897.4	57.18%
Salaries and allowances and contributions to P.F.	4178.565	14.50%	4546.41	17.27%	4756.91	20.29%	5463.774	21.66%	6674.45	21.32%
Directors fees and expenses	11.44288	0.04%	6.14222	0.02%	6.96211	0.03%	9.861968	0.04%	9.57028	0.03%
Shariah Supervisory Committee’s fees and expenses	0.860014	0.00%	0.29838	0.00%	0.24677	0.00%	0.45597	0.00%	0.49179	0.00%
Rent, taxes, insurance etc.	749.8516	2.60%	499.303	1.90%	539.465	2.30%	524.1005	2.08%	560.893	1.79%
Postage, telegram, telephone stamp etc.	78.2491	0.27%	68.3484	0.26%	67.2314	0.29%	79.8361	0.32%	82.3288	0.26%
Legal charges	9.578703	0.03%	16.0468	0.06%	13.428	0.06%	20.3852	0.08%	21.7023	0.07%
Auditors’ fee	1.691	0.01%	1.6675	0.01%	1.64075	0.01%	1.96075	0.01%	1.88025	0.01%
Salary and Allowances to the Managing Director	19.05	0.07%	19.344	0.07%	20.418	0.09%	22.33	0.09%	23.743	0.08%

Depreciation and repairs to the Bank's properties	584.3631	2.03%	836.301	3.18%	891.4	3.80%	1004.2092	3.98%	996.348	3.18%
Stationery, printing, and advertisement etc.	153.204	0.53%	186.324	0.71%	149.075	0.64%	183.8395	0.73%	235.078	0.75%
Other expenses	597.3233	2.07%	562.153	2.13%	682.466	2.91%	824.418	3.27%	1056.51	3.38%
Total operating expenses	6384.179	22.16%	6742.33	25.61%	7129.25	30.41%	8135.171	32.26%	9662.99	30.87%
Profit/(Loss) before Tax	7860.627	27.28%	6687.76	25.40%	7494.14	31.96%	8493.51	33.68%	8234.39	26.31%
Provision against Investments & Contingent Liabilities	2845.817	9.88%	1878.17	7.13%	2647.12	11.29%	3167.995	12.56%	2762.58	8.83%
Provision for diminution in value of investment	21.83928	0.08%	9.7251	0.04%	8.45996	0.04%	3.138932	0.01%	-0.9843	0.00%
Other Provision	0	0.00%	0	0.00%	0	0.00%	3.0129	0.01%	0	0.00%
Total provision	2867.656	9.95%	1887.9	7.17%	2655.58	11.33%	3229.514	12.80%	2752.74	8.79%
Profit/(Loss) before Tax	4992.971	17.33%	4799.87	18.23%	4838.56	20.64%	5262.999	20.87%	5481.65	17.51%
Current tax	2615.089	9.08%	2258.44	8.58%	2751.34	11.73%	3206.309	12.71%	3129.35	10.00%
Deferred tax	-49.7558	-0.17%	-30.382	-0.12%	-39.225	-0.17%	-48.913	-0.19%	-41.791	-0.13%
Provision for Taxation	2565.333	8.90%	2228.06	8.46%	2712.12	11.57%	3157.376	12.52%	3125.17	9.98%
Net Profit/(Loss) after tax	2427.637	8.43%	2571.81	9.77%	2126.44	9.07%	2106.623	8.35%	2356.49	7.53%

The common size income statement demonstrates the impacts of changes from year to year in comparison to the common figure as Investment Income for Al-Arafah Islami Bank. In 2020, the net income started to increase by 9.77% compared to that of 8.43% for the income year 2019. But it has followed the decrease in the subsequent year like 2021, 2022, and 2023. This scenario can be reversed regarding total operating profit because it has increased from 2019 to 2023.

3.6 Trend Analysis

3.6.1 Trend Analysis of Balance Sheet

Trend analysis of balance sheet										
Particulars	2019	%	2020	%	2021	%	2022	%	2023	
Cash in hands (Including foreign currencies)	3063.29	100.00%	2898.21	94.61%	3232.05	105.51%	4941.93	161.33%	5024.42	164.02%
Balance with Bangladesh Bank and its Agent Banks (Including foreign currencies)	27705.4	100.00%	28660.9	103.45%	20456.6	73.84%	26693.1	96.35%	21693.2	78.30%
Balance with other Banks and Financial Institutions										
In Bangladesh	5473.39	100.00%	8288.03	151.42%	3133.65	57.25%	2853.79	52.14%	3408.45	62.27%
Outside Bangladesh	6120.22	100.00%	8273.81	135.19%	8907.48	145.54%	10010.6	163.57%	7120.87	116.35%
	11593.6	100.00%	16561.8	142.85%	12041.1	103.86%	10296	88.81%	7120.84	61.42%
Placement with Banks and Other Financial Institutions	12000	100.00%	14270	118.92%	23985	199.88%	79789.9	664.92%	82500	687.50%
Investment in Share and Securities	16170.5	100.00%	21563.7	133.35%	30156.1	186.49%	36946.9	228.48%	47316.3	292.61%
Government	14500	100.00%	19583.8	135.06%	23504.9	162.10%	27410.3	189.04%	33910.3	233.86%
Others	1670.52	100.00%	1979.84	118.52%	6651.2	398.15%	9536.64	570.88%	13406	802.50%
Investments	0		0		0		0		0	
General Investments etc.	274017	100.00%	296718	108.28%	323343	118.00%	384403	140.28%	421320	153.76%
Bills purchased and discounted	14469	100.00%	11902.8	82.26%	13547.9	93.63%	22384.7	154.71%	25801.2	178.32%
	288486	100.00%	308621	106.98%	336891	116.78%	606788	210.34%	447121	154.99%
Fixed assets less Accumulated Depreciation	4351.93	100.00%	5833.88	134.05%	5470.27	125.70%	5144.43	118.21%	5010.42	115.13%
Other Assets	17630.2	100.00%	19838.6	112.53%	30404.3	172.46%	35016.1	198.61%	31380.5	177.99%
Non-banking Assets	50.875	100.00%	50.875	100.00%	50.875	100.00%	50.875	100.00%	50.875	100.00%
Total Assets	381052	100.00%	418299	109.77%	462687	121.42%	406788	106.75%	447121	117.34%
Liabilities and Capital										
Liabilities										

Placement from Banks and Other Financial Institutions	27546.4	100.00%	24000.5	87.13%	32506.8	118.01%	54123.2	196.48%	61352.7	222.72%
Deposits and Other Accounts										
Mudaraba Savings Deposits	45211.4	100.00%	54879.1	121.38%	62011	137.16%	69141.3	152.93%	64023.4	141.61%
Dudaraba Term Deposits	162588	100.00%	164010	100.87%	175485	107.93%	193085	118.76%	209448	128.82%
Other Mudaraba Deposits	55156.1	100.00%	66744	121.01%	68093.1	123.46%	68952.6	125.01%	61872.4	112.18%
Al-wadeeah Current Accounts and Other Accounts etc.	30701.5	100.00%	37331.4	121.59%	43639.2	142.14%	58456.9	190.40%	70747.9	230.44%
Bills Payable	3584.86	100.00%	3059.38	85.34%	4059.48	113.24%	4410.44	123.03%	4303.07	120.03%
	297242	100.00%	326023	109.68%	353288	118.86%	394046	132.57%	419395	141.10%
Other Liabilities	25157.6	100.00%	31485.7	125.15%	36298.4	144.28%	44615.1	177.34%	50023.1	198.84%
Deferred tax Liabilities/(Assets)	157.833	100.00%	133.204	84.40%	93.5952	59.30%	44.4169	28.14%	40.2378	25.49%
AIBL Mudaraba Bond	6800	100.00%	11200	164.71%	14600	214.71%	16010	235.44%	16000	235.29%
Total Liabilities	356904	100.00%	392843	110.07%	436787	122.38%	508839	142.57%	546811	153.21%
Capital/Share holder's Equity										
Paid-up Capital	10649	100.00%	10649	100.00%	10649	100.00%	10649	100.00%	10968.5	103.00%
Statutory Reserve	9379.99	100.00%	10334.6	110.18%	10649	113.53%	10649	113.53%	10968.5	116.93%
Revaluation Reserve	938.619	100.00%	1084.33	115.52%	1084.33	115.52%	1084.97	115.59%	1084.17	115.51%
Retained Earnings	1531.42	100.00%	1732.14	113.11%	1823.37	119.06%	1841.05	120.22%	1802.54	117.70%
Total Equity attributable to Equity holders of the Bank	22499.1	100.00%	23800.1	105.78%	24205.8	107.59%	24224.1	107.67%	24823.7	110.33%
Non-controlling interest	1649.16	100.00%	1655.73	100.40%	1694.59	102.75%	1693.43	102.68%	1673.93	101.50%
Total Equity	24148.2	100.00%	25455.8	105.42%	25900.3	107.26%	25917.5	107.33%	26497.6	109.73%
Total Liability and Shareholders equity	381052	100.00%	418299	109.77%	462687	121.42%	534756	140.34%	573309	150.45%

Trend analysis decomposes the circumstances in which future outcomes can be achieved. The base for performing trend analysis is selected as the financial year 2019. In the case of cash in hands, it has been observed that it decreased in 2020 but improved in other financial years. In the case of total assets, it has followed an upward slope because it has been observed that total assets have increased year to year.

3.6.2 Trend Analysis of Income Statement

Trend analysis of Income statement										
Particulars	2019	%	2020	%	2021	%	2022	%	2023	%
Investment Income	28811.7	100.00%	26331.3	91.39%	23446	81.38%	25221.4	87.54%	31299.7	108.64%
Profit paid on deposits	-18604	100.00%	-16557	88.99%	-13073	70.27%	-16110	86.59%	-21201	113.96%
Net Investment Income	10207.2	100.00%	9774.63	95.76%	10373.2	101.63%	9111.76	89.27%	10098.5	98.93%
Income from Investment in Shares /Securities	770.633	100.00%	681.938	88.49%	359.555	46.66%	107.666	13.97%	200.988	26.08%
Commission, Exchange and Brokerage	2916.08	100.00%	2627.55	90.11%	3299.11	113.14%	5639.65	193.40%	4612.48	158.17%
Other Operating Income	350.858	100.00%	345.976	98.61%	591.502	168.59%	800.612	228.19%	1176.57	335.34%
	4037.57	100.00%	3655.46	90.54%	4250.17	105.27%	7516.92	186.17%	7798.92	193.16%
Total operating income	14244.8	100.00%	13430.1	94.28%	14623.4	102.66%	16628.7	116.74%	17897.4	125.64%
Salaries and allowances and contributions to P.F.	4178.57	100.00%	4546.41	108.80%	4756.91	113.84%	5463.77	130.76%	6674.45	159.73%
Directors fees and expenses	11.4429	100.00%	6.14222	53.68%	6.96211	60.84%	9.86197	86.18%	9.57028	83.64%
Shariah Supervisory Committee’s fees and expenses	0.86001	100.00%	0.29838	34.69%	0.24677	28.69%	0.45597	53.02%	0.49179	57.18%
Rent, taxes, insurance lighting etc.	749.852	100.00%	499.303	66.59%	539.465	71.94%	524.101	69.89%	560.893	74.80%
Postage, telegram, telephone stamp etc.	78.2491	100.00%	68.3484	87.35%	67.2314	85.92%	79.8361	102.03%	82.3288	105.21%
Legal charges	9.5787	100.00%	16.0468	167.53%	13.428	140.19%	20.3852	212.82%	21.7023	226.57%
Auditors’ fee	1.691	100.00%	1.6675	98.61%	1.64075	97.03%	1.96075	115.95%	1.88025	111.19%
Salary and Allowances to the Managing Director	19.05	100.00%	19.344	101.54%	20.418	107.18%	22.33	117.22%	23.743	124.64%

Depreciation and repairs to the Bank's properties	584.363	100.00%	836.301	143.11%	891.4	152.54%	1004.21	171.85%	996.348	170.50%
Stationery, printing, and advertisement etc. & advertisement etc	153.204	100.00%	186.324	121.62%	149.075	97.30%	183.84	120.00%	235.078	153.44%
Other expenses	597.323	100.00%	562.153	94.11%	682.466	114.25%	824.418	138.02%	1056.51	176.87%
Total operating expenses	6384.18	100.00%	6742.33	105.61%	7129.25	111.67%	8135.17	127.43%	9662.99	151.36%
Profit/(Loss) before Tax	7860.63	100.00%	6687.76	85.08%	7494.14	95.34%	8493.51	108.05%	8234.39	104.75%
Provision against Investments & Contingent Liabilities	2845.82	100.00%	1878.17	66.00%	2647.12	93.02%	3168	111.32%	2762.58	97.08%
Provision for diminution in value of investment	21.8393	100.00%	9.7251	44.53%	8.45996	38.74%	3.13893	14.37%	-0.9843	-4.51%
Other Provision	0	0.00%	0	0.00%	0	0.00%	3.0129	0.00%	0	0.00%
Total provision	2867.66	100.00%	1887.9	65.83%	2655.58	92.60%	3229.51	112.62%	2752.74	95.99%
Profit/(Loss) before Tax	4992.97	100.00%	4799.87	96.13%	4838.56	96.91%	5263	105.41%	5481.65	109.79%
Current tax	2615.09	100.00%	2258.44	86.36%	2751.34	105.21%	3206.31	122.61%	3129.35	119.67%
Deferred tax	-49.756	100.00%	-30.382	61.06%	-39.225	78.84%	-48.913	98.31%	-41.791	83.99%
Provision for Taxation	2565.33	100.00%	2228.06	86.85%	2712.12	105.72%	3157.38	123.08%	3125.17	121.82%
Net Profit/(Loss) after tax	2427.64	100.00%	2571.81	105.94%	2126.44	87.59%	2106.62	86.78%	2356.49	97.07%

The trend analysis for Al-Arafah Islami Bank in terms of the income statement demonstrates the changes in the next years compared to the base year. The base year is 2019 and it has been compared to all the years. In 2020, net income positively changed to 105.94% but it decreased in 2021 which is 87.59%. The next year again faced negative growth but it has faced positive growth in 2023 which is 97.07% but lower than 2019 by 2.93%.

Comparison of trend and common size analysis

The common size analysis showed that the cash in hands decreased from 2019 to 2020 which is familiar with trend analysis in terms of balance sheet. But it has increased in both analyses for the income year 2023 of cash in hands. In the case of the income statement, both analyses show that the overall net profit of the bank has decreased from 2019 to 2023.

Chapter 04: Findings, Recommendations, and Conclusions

4.1 Findings

Based on the financial statements, several financial performance indicators of Al-Arafah Islami Bank are satisfactory. Where several performance factors need to be improved. The key findings of the bank can be considered as follows:

- The liquidity ratio of the bank overall decreased because the cash ratio and current ratio were below 1.30 which is below the industrial benchmark.
- The overall operating efficiency ratio for the bank is not satisfactory because most of the ratio is below the industrial benchmark. But fixed asset turnover is determined above 4 for 2019 to 2023 which is above the industrial benchmark and is favorable for the bank.
- In the case of profitability ratios, only GPM is considered suitable for the bank. However, the other ratios like NPM, OPM, ROE, and ROA are not significant to the industrial benchmark.
- According to the three-factor DuPont analysis, the most impacting ratio causing the ROE to change is total asset turnover. Because a slight decrease impacted lower ROE significantly compared to NPM and EM.
- In common size analysis, it is determined that the overall net income is decreasing compared to the common figure as investment income. Trend analysis indicates that the company is facing a decrease in cash in hand. In addition, the net income of the bank is overall decreasing over time.

4.2 Recommendations

The financial performance analysis of Al-Arafah Islami Bank demonstrates that it needs to improve in most of the cases though few have improved. The bank should follow the following:

- The bank should follow industrial benchmarks that are 1.5 to 3 for liquidity management and ensure proper reserve in cash and current assets to justify the capability to immediately settle financial obligations. The cash ratio and current ratio are below 1.30 for all years which should be increased significantly.
- Efficiency ratios such as equity turnover, fixed asset turnover, and debt ratio need to be organized. These ratios are higher than the industry benchmark 50%. These ratios should be equal or lower than 50%.
- According to profitability ratios, NPM, OPM, ROA, and ROE need to be increased to the industry benchmark because these ratios are so much lower for 2019 to 2023 of the banks. Only GPM is favourable to the bank. So, the profitability of the bank should be improved by 20% to 50% to build trustworthiness to the investor.
- The ROE of the bank is not satisfactory compared to the industry benchmark which is 15% to 20%. So, it is needed to apply the DuPont model to change suitable factors easily and increase the overall ROE of the bank.
- According to common size and trend analysis, the total assets of the bank increased compared to the previous year to the next year but the net income is not at a satisfactory level. So, net income needs to be increased. For this reason, operating and non-operating expenses should be maintained as well and investment income should be positively changed by providing effective services.

4.3 Conclusions

Al-Arafah Islami Bank operates its activities based on the guidelines of Islamic Shariah. The SWOT analysis indicates that the bank has several strong points for its business such as positive customer perception, strong brand value, sufficient investment, and so on. Few opportunities exist such as technological involvement, the establishment of e-banking facilities, the operation of new branches, and so on. Weaknesses and threats can be determined as lower market share, competitive rivalry, lack of sufficient regulation, and so on. The assessment of financial performance indicates that the liquidity ratio for 2019 to 2023 needs to be increased to reach the industry benchmark. The operating efficiency ratio also demonstrated unsatisfactory due to an unsettlement with the industry benchmark. Equity turnover and asset turnover need to be improved for the financial year 2019 to 2023. Whereas, the fixed asset turnover of the bank has reached a satisfactory level because it has surpluses the industry benchmark. The profitability ratios of the bank are determined as lower compared to that of the industry benchmark. Because only GPM has satisfactory results for 2019 to 2023. Whereas ROA, OPM, and ROE underperformed within the period. The common figure for assessing the balance sheet in terms of common size analysis is utilized as total assets. Compared to total assets, cash in hands has followed an increasing rate for the financial year 2019 to 2023 but is not sufficient to satisfy industry liquidity ratios. Based on the investment income, overall net income for the financial period 2019 to 2023 has decreased which indicates worse operating efficiency ratios of the bank. The trend analysis considers increasing rates in cash in hands, investment in shares and securities, other assets, and so on which indicates that these items can be projected upward sloping for the upcoming period. The income statement demonstrates that investment income outperformed in 2019 and 2023 but underperformed in 2020, 2021, and 2022. So, the bank should focus on a better investment strategy as well as increase profitability.

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