

Internship Report

On

Review of financial performance of Al–Arafah
Islami Bank Limited in banking sector of
Bangladesh



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**Review of financial performance of Al –Arafah Islami Bank Limited in banking sector of
Bangladesh**

Supervised By

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Bachelor of Business Administration

Daffodil International University

Date of Submission:

LETTER OF THE SUBMISSION

To,

Fatema Nusrat Chowdhury
Assistant Professor
Department of Business Administration
Daffodil International University.

Subject: Submission of Internship Report on “Review of financial performance of Al –Arafah Islami bank limited in banking sector of Bangladesh.”

Dear Mam,

I am happy to provide my internship report on the "Review of financial performance of Al –Arafah Islami bank limited in the banking industry of Bangladesh" right here. The experience I gained during my internship at Al-Arafah Islami Bank Limited is the only basis for this paper. I would be really grateful and honored if you read over my internship report and recognized my hard work and devotion. I did my best to effectively and efficiently portray the initial circumstances of Al –Arafah Islami bank Limited’s Financial Performance Analysis.

Finally, I would like to express my sincere appreciation and thanks to you for preparing this report. I would be happy to answer any of your questions on this topic.

Sincerely Yours,



Umme Hani
ID: 191-11-814
Department of Business Administration
Daffodil International University

ACKNOWLEDGEMENT

I'm happy to take this chance to thank the individual for their guidance, help, and patience, without which I would not have been able to complete my report.

I appreciate our esteemed professor Fatema Nusrat Chowdhury's thorough criticism and suggestions on this duty. She is an assistant professor at Daffodil International University in Dhaka, Bangladesh. He often offered us his wise counsel on how to complete this assignment.

Along with the internet, reality books, newspapers, and other sources of crucial information that BBA students at other colleges do not have access to, we need to publish some more names. They kindly gave us their time, took the time to thoroughly respond, and assisted us in finishing the research. We appreciate their help and cooperation.

SUPERVISOR'S CERTIFICATE

This is to certify that **Umme Hani, ID: 191-11-814**, BBA (Finance), is a regular student of the Department of Business Administration, Faculty of Business and Entrepreneurship, Daffodil International University. She has successfully completed her internship program at Al-Arafah Islami Bank Limited and has prepared for this internship under my direct supervision. Her assigned internship topic is **“Review of financial performance of al – Arafah Islami Bank limited in banking sector of Bangladesh”**. I think that the report is well-intentioned of fulfilling the partial requirements of BBA program.

I wish her success in the future.



Fatema Nusrat Chowdhury,
Assistant Professor,
Department of Business Administration,
Daffodil International University.

DECLARATION

I solemnly declare that the work of this internship report titled "Review of financial performance of Al-Arafah Islami Bank Limited in banking sector of Bangladesh." Is one of my key works under the supervision of Fatema Nusrat Chowdhury, Assistant Professor, Department of Business Administration, Daffodil International University.

No part of this report has been submitted to any other organization before and I am collecting all the information from the internet and senior executives of my bank.

I have done more to identify the department against my loss or damage arising from a breach of mandatory obligation against it, if any.

Umme Hani

Umme Hani

ID: 191-11-814

Department of Business Administration

Daffodil International University

EXECUTIVE SUMMARY

The goal of the study is to comprehend Al-Arafah Islami Bank Limited's procedures in the banking industry of Bangladesh as well as its review of financial performance. The bank, which offers traditional banking services and client-focused programs, has won the hearts of its clients and grown to be the markets and the nation's top bank. I provided background information for the whole content report in the first section of my report. Next, I'll provide a quick overview of Al-Arafah Islami Bank Limited. Al-Arafah Islam Bank's historical history, number of branches, vision, purpose, and other topics will be covered in this section.

The project's portion follows. In that section, I reviewed the profitability and financial performance of Al-Arafah Islami Bank Limited in the Bangladeshi banking industry. I went into great length on each subject of general and banking. I have also succinctly described the conditions and rules for each financial analysis. I mentioned the fact that banks provide current product developments in the research section.

Then, depending on the findings of this study, I get some recommendations. I get the bank authorities to affiliate with the cutting-edge over-the-counter software that buys specialized banking tools and apps.

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Chapter 1
Introduction

1.1 Introduction

The banking industry in Bangladesh has seen a quick and considerable development in recent years. Not just in our nation. Due to technical advancement, globalization, and a lack of authority, the state of banking is fast changing across the globe. This transformation has had a huge impact on our nation's banking sector globally, which has led to change in this business in our nation. The banks are now required to compete in the market with both domestic and international organizations. This is why I decided to successfully complete my internship program in the banking industry.

Internship Program Prerequisite for obtaining a BBA degree from DIU. DIU BBA Program Intern During this internship program, student required to prepare a report on the respective institution. I am very proud to join Al-Arafah Islami Bank Limited. as part of the required program. I was kept in Al-Arafah Islami Bank Limited. in the College gate office for three months. This internship is a full working activity of Al-Arafah Islami Bank Limited. and a direction to study on the field of banking as a whole. While working there, I had to select a field of study so that I could do detailed research and present any understanding in the report. From this perspective, after completing the 3-month internship program, I have prepared this report. I highly appreciate this performance and hope it will play a great role in building by future careers.

1.2 Background of the Study

As a prerequisite for the Bachelor of Business Administration (BBA) degree from Daffodil International University (DIU), it is required to complete an internship at a reputed business Organization & prepare a report. In fact, I am going to know about the Review of financial performance of Al–Arafah Islami bank limited in banking sector of Bangladesh.

The main business of banking is to provide credit to borrowers and accept deposits from the customers. Banks play an important role in the development of a country as well as in providing huge employment opportunities.

Al-Arafah Islami Bank Limited. plays that biggest role. It contributes to the economic development of a nation through conservation and credit. It is the change and allocation of funds

across the country which it is added to the development of the country's economy and national resources added.

The study seeks to evaluate the performance of Al-Arafah Islami Bank Limited. Whether the performance of Al-Arafah Islami Bank Limited. is at a satisfactory level. This is the main aspect of the study.

1.3 Objectives of the Study

Broad Objective:

- To analyze the financial statements of Al-Arafah Islami Bank Limited. with the key focus of its overall financial performance.

Specific Objectives:

- To analyze the financial performances of AAIBL's Annual report data.
- To evaluate the Ratio analysis, DuPont analysis, Trend analysis, Common size analysis and SWOT analysis of AAIBL for the years 2017-2021.
- To identify major findings related to financial performance and to provide some recommendations about those findings of AAIBL.

1.4 Methodology

The study requires a systematic process from topic selection to final report preparation. To perform the study, data sources were identified, collected, classified, analyzed, interpreted, and presented in a systematic manner, and key points need to be explored. The overall process of systemic gas is given below:

The primary source of information are:

- Face-to-face conversations with officers.
- Practical desk work.
- Officers study relevant files provided by related officers.

Secondary data source:

- Various notices issued by Head Office and BB (Bangladesh Bank).
- Annual Report of Al-Arafah Islami Bank Limited.
- Publications obtained from the library of Al-Arafah Islami Bank Limited.
- Al-Arafah Islami Bank Limited's official website.

Data collection:

Preliminary information was collected through direct and forward interviews of various employees of Al-Arafah Islami Bank Limited.

1.5 Limitations

I was unable to complete the internship before the deadline. Since we have a deadline for submitting the report, I should feel comfortable working in portions that are linked to the topic I'm competent in, however sometimes we need to work in various sections. Therefore, it is difficult to become an expert on the topic.

These restrictions restrict the scope for proper analysis by making it difficult to find adequate books, articles, information, and data. If these restrictions do not present, the report has improved and become more engaging.

Data collection from such a vast business was exceedingly challenging. I completed my internship at the College Gate location. But I needed more details, so I had to get some from both the corporate office and the regional office. Because of several departmental and secret difficulties, I can't receive adequate information.

Chapter2

Background of Al-Arafah Islami Bank Limited.

2.1 History of Al-Arafah Islami Bank Limited.

Al-Arafah Islami Bank was established in Bangladesh in 1995 as a limited liability banking organization. On September 27 of that year, it officially opened for operation with a capitalization of 1 billion taka. Its paid-up capital at incorporation was Tk 101.20 million, split into 101,200 ordinary shares at Tk 1,000. The whole issued capital was subscribed by 23 sponsors of the bank. The bank's paid-up capital climbed to Tk 253 million in 2000, of which the promoters/sponsors contributed Tk 126.50 million and the general public contributed Tk 126.50 million. The bank has made 126,000 shares available for subscription and trading by the general public and is listed on both of the nation's stock exchanges. A shariah bank that does not charge interest, Al- Arafah Bank operates quite differently from conventional commercial banks. However, the bank offers all varieties of the Bank Companies Act of 1991 regulates commercial banking services. It operates under the musharaka, bai-murabaha, bai-muajjal, and hire buy transactional concepts. To make sure that the bank's operations are carried out in accordance with Islamic principles, a Shariah Council keeps continual watch over them.

Al-Arafah Islami Bank Limited is one of the biggest islamic banks in the nation, it should be noted. Its implementation of sharia principles is superior to that of another bank.

2.2. Vision & Mission

Vision: To be a unique modern Islamic Bank in Bangladesh and to make significant contribution to the national economy and enhance customer's trust and wealth, quality investment, employee's value and rapid growth in shareholder's equity.

Mission: Dedicated to extend a whole range of quality products that support divergent needs of people aiming at enriching their lives, creating value for the stakeholders and contributing towards socio-economic development of the country.

2.3. Corporate profile

| | |
|----------------------------|---------------------------------------|
| Name of the Company | Al-Arafah Islami Bank Limited. |
| Chairman | Al-Hajj Md. Badiur Rahman |

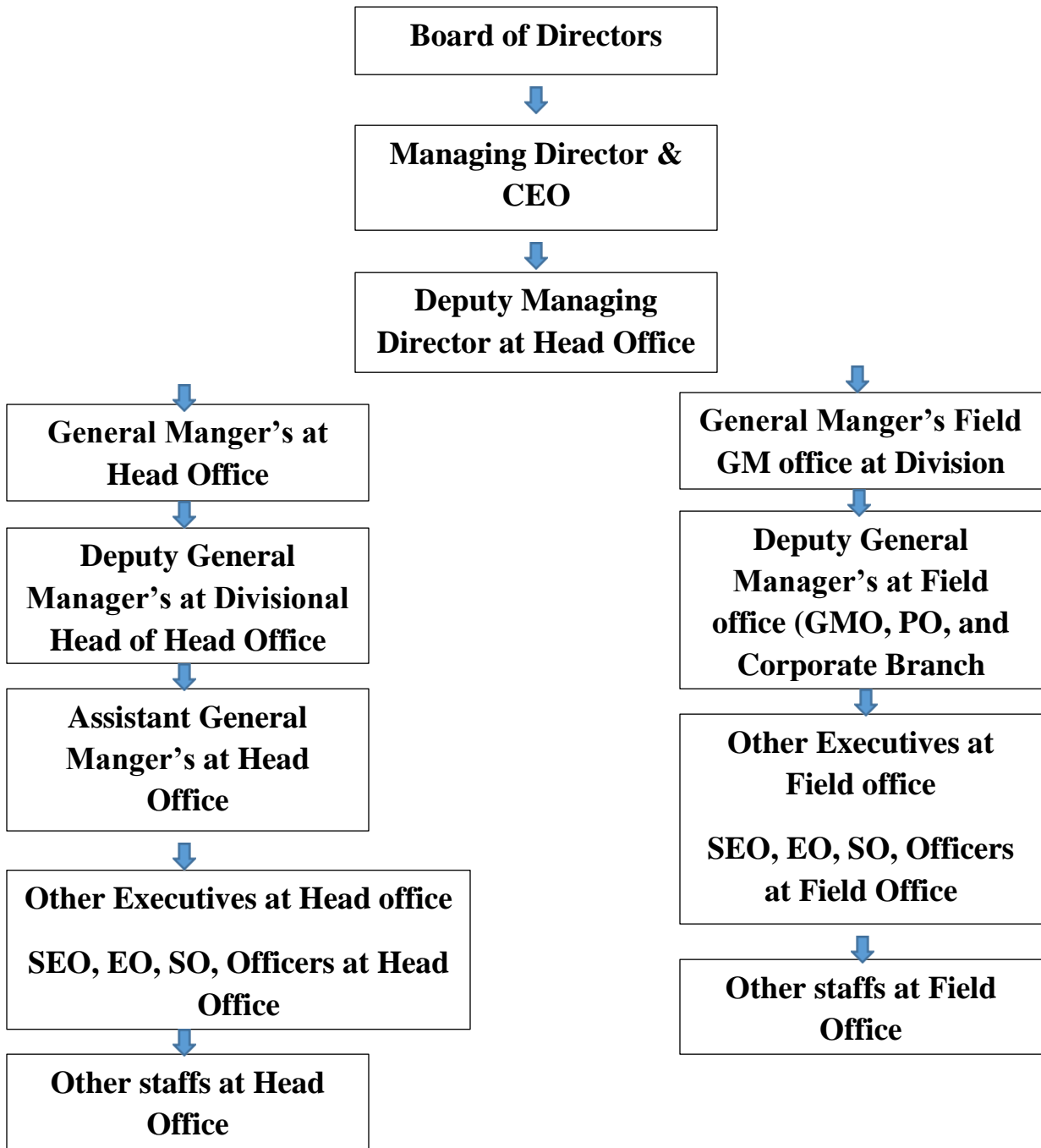
| | |
|----------------------------|---|
| Vice Chairman | Al-Hajj Md. Harun-Ur-Rashid |
| Legal Status Public | Limited Company |
| Genesis | Emerged as Nationalized Commercial Banking 1972, following the Bangladesh Bank (Nationalization) Order No. 1972 (PO No. 26 of 1972) |
| Date of Incorporation | 18th June 1995 |
| Date of Vendor's Agreement | 27th September 1995 |
| Registered Office | Head Office, Al-Arafah Tower, 63, Purana Paltan, Dhaka-1000. |
| Authorized Capital | Tk 250.00 Crore. |
| Paid-up Capital | Tk 138.38 Crore |
| Number of Employee | 1091 |
| Number of Branches | 50 |
| Phone-PABX | +88-02-44850005 |
| FAX | +88-02-44850066 |
| SWIFT | ALARBDDH |
| Website | www.aibl.com.bd |
| E-mail | info@aibl.com.bd |

2.4 Hierarchy of Al-Arafah Islami Bank Limited.

Management:

The Board of Directors of the Bank is entrusted with the Board of Directors, overall supervision and instructions regarding the policy of the Board which was constituted in accordance with the Bangladesh Bank (Nationalization) Order 19 1972. The Board of Directors, comprising of seven members, has the authority to organize, manage and conduct its affairs for commercial purposes in accordance with the Government's Board Policy. There are directors appointed by the government. Other members of the board, including the MD, are also appointed by the government, at least three of whom have experience in finance, banking, commerce, commerce,

industry and agriculture. The Managing Director is the Chief Executive Officer of the Bank. He conducts all activities under the direction of the board. All lines and employees of the Bank except the members of the Board of Directors are self-appointed.



2.5 Organizational structure

The biggest private Islamic bank in Bangladesh is Al-Arafah Islami Bank Limited. There are 1187 commercial banks in the whole nation. Additionally, it has two branches abroad. The bank's headquarters are in Dhaka's Motijheel Commercial. DGM oversees the divisions, while AGM oversees the departments. In the main office, each department has a number of sub departments. An AGM often oversees a regional office, whereas a DGM is in charge of the central office. Principal offices are neighborhood hubs in the district bank's administrative region. The head offices have authority over and are responsible for the regional offices. The offices are situated in the districts at the thana level. Corporate branches and GM offices run by DGMs are almost equal. All financial services, including general banking, loans, and advances, are offered by them. The following list outlines Sonali Bank's organizational structure:

2.6 Services of Al-Arafah Islami Bank Limited.

Functional Department of the Al-Arafah Islami Bank Limited:

There are basically three functional departments in Al-Arafah Islami Bank Limited. These are:

- General Banking
- Foreign Exchange
- Loan & Investment

General Banking:

Bank is nothing but an intermediary between lender (surplus unit) and borrowers (deficit unit). Savings and deposits are the main strength of the banks to provide loan. And the interest earned from the difference borrowing and lending is the major portion of banks income. Banks also earns from variety of operation.

General banking is the side where banks offer different alternatives to the clients to deposit and remit their money. Accounts division is also included in general banking. To encourage the clients, bank offers different options in front of their clients. Most of these options are very much similar

between the banks, but the customer services and facilities may not be the same. Al-Arafah Islami Bank Limited has variety of services provided to the retail as well as for corporate clients.

General banking activities of the Al-Arafah Islami Bank Limited. Are included:

- Account Opening
- Cheque Book House
- Account Closing
- Clearing Department
- Local Remittance
- Cash Section
- Online Banking
- SMS Banking
- ATM Banking

Locker Services Foreign Exchange:

The process by which rights to wealth in one currency are transformed into rights to wealth in another currency is known as foreign exchange. When we speak to foreign exchange in banks, we mean the broad process by which a bank transforms one currency into another. The international department is called the Foreign Exchange Department (FED). Scheduled banks are granted permission by Bangladesh Bank to conduct foreign exchange business. Authorized Dealers are the name given to certain institutions. If the branch is a licensed dealer in the foreign exchange market, it is permitted to transfer foreign currency from one nation to another. The AAIBL Ring Road branch's foreign exchange department is separated into two parts:

- Import section.
- Export section.

Loan & Investment:

This is the survival unit of the bank because until and unless the success of this department is attained, the survival is a question to every bank. If this section does not properly work the bank it may become bankrupt. This is important because this is the earning unit of the bank. Bank is

accepting deposits from the depositors in condition of providing profit to them as well as safe keeping their profit. Now the question may gradually arise how the bank will provide profit to the clients and the simple answer is Investment and Advance.

AAIBL provides different types of investments. Those are as follows:

- Bai-Murabaha (Deferred Lump Sum/ Installment Sale)
- Bai-Muajjal (Deferred Installment / Lump Sum Sale)
- Ijara (Leasing)
- Musharaka (Joint-Venture Profit-Sharing)
- Mudaraba (Trustee Profit-Sharing)
- Bai-Salam (Advance Sale and Purchase)
- Hire-Purchase
- Direct Investments
- Post Import Investment
- Purchase and Negotiation of Export Bills
- Inland Bills Purchased
- Murabaha Import Bills
- Bai-Muajjal Import Bills
- Qard-UI-Hasan (Benevolent Investment)
- Specialized Schemes
- Consumer Investment Scheme,
- SME Investment Scheme,
- Lease Investment Scheme,
- Earnest Money Investment Scheme,
- Mortgage Investment,
- Employees House Building Scheme
- From the above schemes below three are generally in action
- Bai-Murabaha (Mark-up sale)
- Bai-Murajjal (Sales on credit)
- Hire-Purchase (Participatory ownership)

Bai-Murabaha (Mark-up Sale):

Meaning

The Arabic words "Baiun" and "Ribhun" are the basis for the phrases "Bai-Murabaha." Both the words Baiun and Ribhun denote the act of buying and selling, respectively. Bai-Murabaha refers to a selling at a predetermined profit.

A "Bai-Murabaha" is a contract between a buyer and a seller whereby the seller sells to the buyer certain particular products that are permitted under Islamic law and local law at the cost plus negotiated profit, which is due in cash or at any future date in a lump amount or by installments. The profit markup may be set as a fixed amount or as a percentage of the cost of the items.

Bai-Murajjal (Sales on Credit):

Meaning

The terms —Bai-Muajjal have been derived from Arabic words _Baiun and _Ajalun The word Baiun means purchase and sale and the word Ajalun means a fixed time or a fixed period. —Bai-Muajjal means sale for which payment is made at a future fixed date or within a fixed period. In short, it is a sale on credit.

Definition

—Bai-Muajjal may be defined as a contract between a buyer and a seller under which the seller sales certain specific goods (permissible under Islamic shariah and the law of the country) to the Buyer at an agreed fixed price payable at a certain fixed future date in lump sum or within a fixed period by fixed installments. The seller may also sell the goods purchased by him as per order and specification of the buyer.

Hire- Purchase (Participatory Ownership):

Meaning and definition:

Hire-Purchase (Participatory ownership) is a special type of contract which has been developed through practice. Actually, it is a synthesis of three contracts:

- ShirkatulMelk
- Ijarah
- Sale

These may be defining as follows:

ShirkatulMelk

Shirkat means partnership. Shirkatul means participation in ownership. When two or more persons supply equity, purchase and asset; own the same jointly, and share the benefit as per agreement and bear the loss in-proportion to their respective equity, the contract is called Shirkatul Melk contract.

Ijarah

The Arabic terms ajr and ujr, which signify consideration, repayment, salary, or rent, are the source of the word ijarah. Actually, this is the exchange value, consideration, pay, rent for the service, and assets. Ijarah is defined as a contract between the Hiree and the Hirer in which the Hirer receives a particular service or benefit in exchange for a specific payment or rent from the Hiree's property. Under a hire agreement, a specific asset is rented out by the hirer to a hirer for a given length of time in exchange for a preset rent.

Sale

This is a contract for sale between a buyer and a seller, under which the seller transfers ownership of certain items or assets to the buyer in exchange for a predetermined amount that the buyer has paid or will pay.

Therefore, at each branch of this bank, there are typically five departments that are always functioning which are:

- Departments are responsible for opening accounts, cash management, accounts, clearing, and investments.
- Account Opening Department: The following are the department's primary responsibilities:
The following list of this department's general activities:

- Opening, canceling, and transferring accounts as well as distributing checkbooks and savings books and providing bank statements and certificates.
- Receiving cash from clients and paying against instruments are the two major responsibilities of the cash department. Instead, it continues to provide the locker service.
- Account Department: The major responsibilities of this department include paying bills, paying salaries, and preserving all types of papers and vouchers.
- The primary responsibility of the clearing department is to receive all inbound and outbound checks for collection and payment as well as to issue pay orders and pay slips.
- Investment Department: This department provides the various facilities necessary to meet the requirements of consumer credit scheme criteria. The following services are included under "Consumer Credit Scheme":
 - Bai-Murabaha (Deferred Lump Sum/ Installment Sale)
 - Bai-Muajjal (Deferred Installment / Lump Sum Sale)
 - Ijara (Leasing)
 - Musharaka (Joint-Venture Profit-Sharing)
 - Mudaraba (Trustee Profit-Sharing)
 - Bai-Salam (Advance Sale and Purchase)

Chapter 3

Financial Performance Analysis

3.1 Ratio Analysis of Al-Arafah Islami Bank Limited.

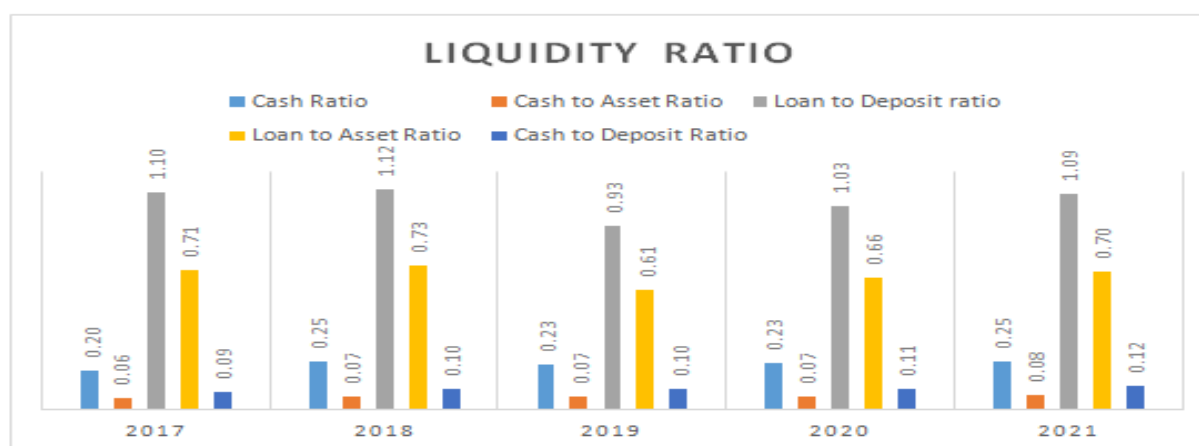
3.1.1 Liquidity Ratio

| Year | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------|------|------|------|------|------|
| Cash Ratio | 0.20 | 0.25 | 0.23 | 0.21 | 0.19 |
| Cash to Asset Ratio | 0.06 | 0.07 | 0.07 | 0.07 | 0.08 |
| Loan to Deposit ratio | 1.10 | 1.12 | 0.93 | .90 | .88 |
| Loan to Asset Ratio | 0.71 | 0.73 | 0.61 | 0.66 | 0.70 |
| Cash to Deposit Ratio | 0.09 | 0.10 | 0.10 | 0.11 | 0.12 |

Source: Annual report of AAIBL (2017-2021)

Table 1: Liquidity ratio calculation

Graphical Explanation:



Graph 1: Liquidity ratio calculation

Interpretation: Al-Arafah Islami Bank Limited’s cash to asset ratio has fluctuated somewhat over the years. It was in (.06-.08). The bank was able to use their cash considering the assets. The cash ratio indicated to the bank is that it is better to use their deposits against their cash. The total deposit ratio of deposits in 2017 is 1.10 which has changed in 2021 and will continue to increase till 2021.

The asset ratio is showing good fluctuations from 2015 to 2019. The cash-to-deposit ratio was good in 2015 but has declined over time and has increased from .10 to .08 deposits.

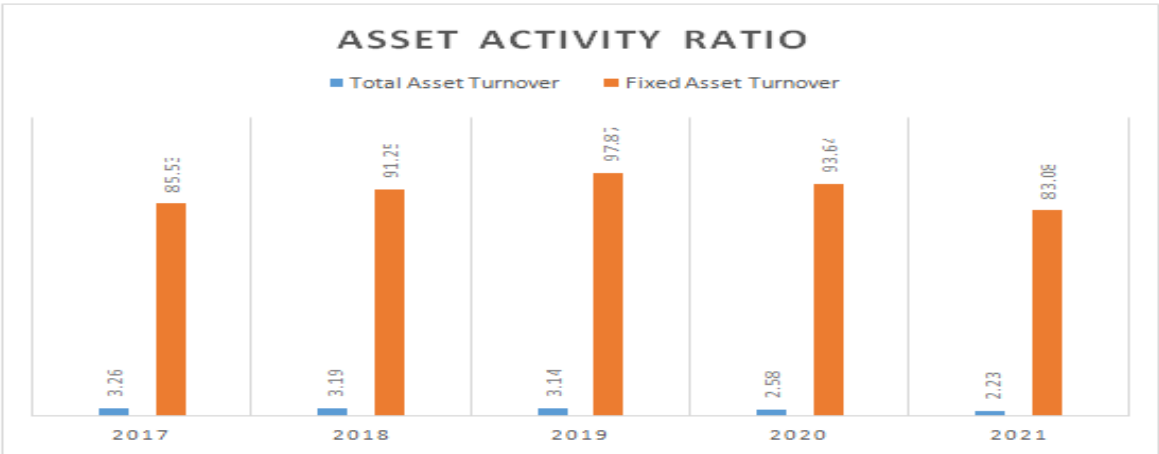
3.1.2 Asset Activity Ratio

| Year | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Total Asset Turnover | 3.26 | 3.19 | 3.14 | 2.58 | 2.23 |
| Fixed Asset Turnover | 85.53 | 91.25 | 97.87 | 93.64 | 83.08 |

Table 2: Asset activity ratio calculation

Source: Annual report of AAIBL (2017-2021)

Graphical Explanation:



Graph 2: Asset activity ratio calculation

Interpretation: The year-to-date as set turn over shows better performance. Following 2018 it was 85.53 as interest income was slightly lower than fixed assets but the difference from 2019 to 2021 has decreased and interest income against fixed assets has increased. The total asset turnover shows that the bank's interest income is much lower than the total assets. After 2020 the rates have dropped from 3.14 to 2.58 and 2.23.

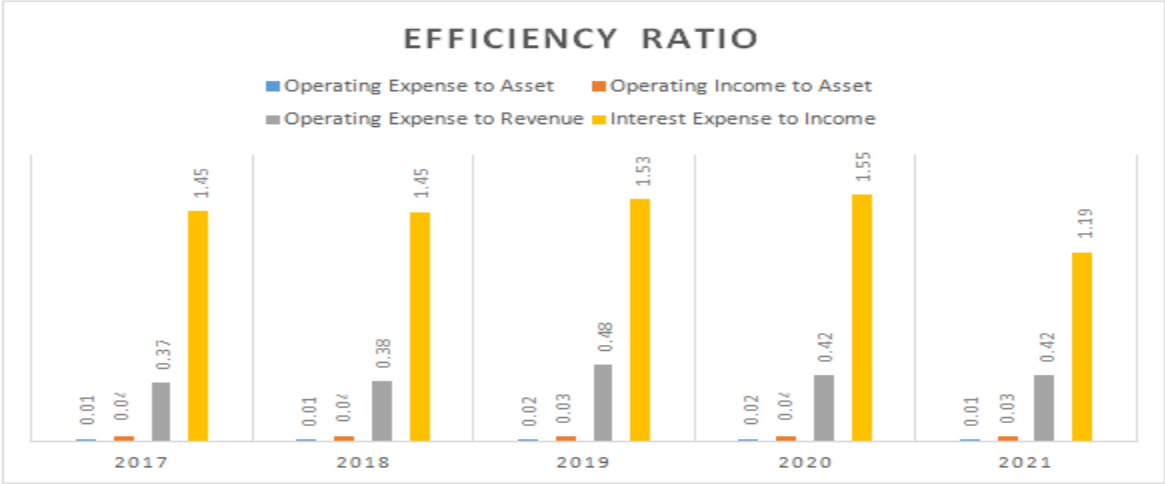
3.1.3 Efficiency ratio

| Year | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Operating Expense to Asset | 0.014 | 0.014 | 0.016 | 0.016 | 0.015 |
| Operating Income to Asset | 0.04 | 0.04 | 0.03 | 0.04 | 0.03 |
| Operating Expense to Revenue | 0.37 | 0.38 | 0.48 | 0.42 | 0.42 |
| Interest Expense to Income | 1.45 | 1.45 | 1.53 | 1.55 | 1.19 |

Source: Annual report of AAIBL (2017-2021)

Table 3: Efficiency ratio calculation

Graphical Explanation:



Graph 3: Efficiency ratio calculation

Interpretation: Operating expenses on total assets are showing positive results in favor of the bank. It is almost constant in the range of 0.014-.016 from 2018 to 2021. Banks were able to conduct the activities at a lower cost than total assets. Banks can maintain their operating income against total assets. Banks can most of the time narrow the gap between operating income and total assets.

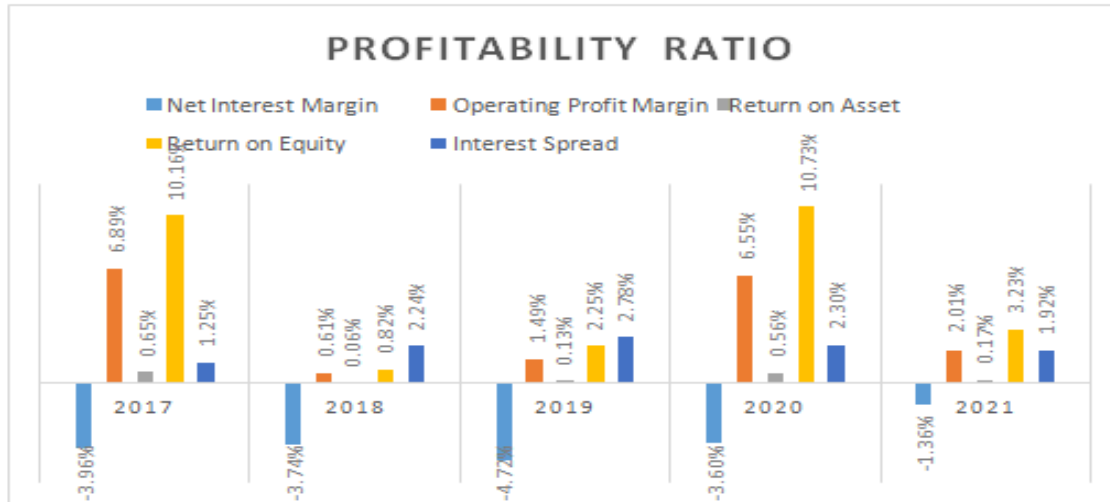
3.1.4 Profitability Ratio

| Year | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------------|---------------|--------------|--------------|---------------|--------------|
| Net Interest Margin | 3.96% | 3.74% | 4.72% | 3.60% | 1.36% |
| Operating Profit Margin | 6.89% | 0.61% | 1.49% | 6.55% | 2.01% |
| Return on Asset | 0.65% | 0.06% | 0.13% | 0.56% | 0.17% |
| Return on Equity | 10.16% | 0.82% | 2.25% | 10.73% | 3.23% |
| Interest Spread | 1.25% | 2.24% | 2.78% | 2.30% | 1.92% |

Table 4: Profitability ratio calculation

Source: Annual report of AAIBL (2017-2021)

Graphical Explanation:



Graph 4: Profitability ratio calculation

Interpretation: Banks show fluctuate flow in return on equity from 2018 to 2021 and returns on equity so much high in 2021. In 2021 the return on equity ratios has increased to 10.73%. The spread of interest is showing a modest rate over the years. Return to slum resource rates from 2018 to 2021. And also, the net interest margin is in the negative side of the axis. It’s all over the scenario in this graph.

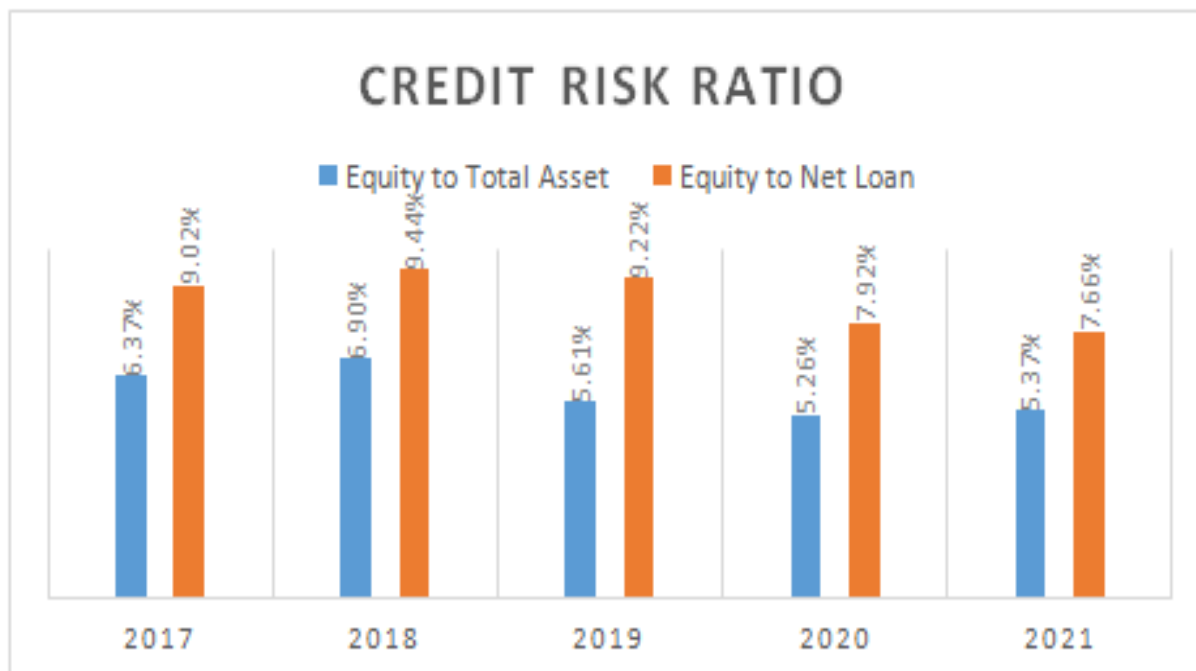
3.1.5 Credit Risk Ratio

| Year | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------|-------|-------|-------|-------|-------|
| Equity to Total Asset | 6.37% | 6.90% | 5.61% | 5.26% | 5.37% |
| Equity to Net Loan | 9.02% | 9.44% | 9.22% | 7.92% | 7.66% |

Table 5: Credit risk ratio calculation

Source: Annual report of AAIBL (2017-2021)

Graphical Explanation:



Graph 5: Credit risk ratio calculation

Interpretation: The equity to asset ratio represents the percentage of equity of the total assets. It was good in 2017 but it has increased a bit in the next few years. As a result, it remained the same for the next two years except 2019. On the other hand, the equity of the net loan is 100% of the equity of the loan amount. It was a slide good in 2021 and then it was positively extended from 2017 to 2021.

3.1.6 Other Ratios

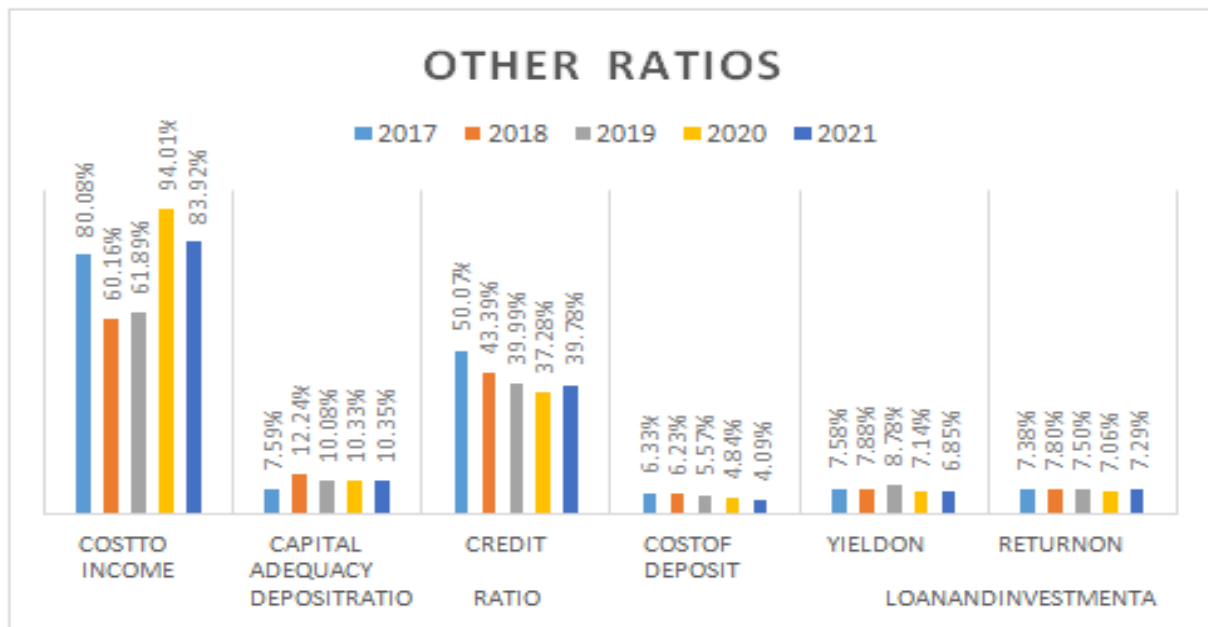
| Year | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cost to Income ratio | 80.08% | 60.16% | 61.89% | 94.01% | 83.92% |
| Capital Adequacy ratio | 7.59% | 12.24% | 10.08% | 10.33% | 10.35% |
| Credit Deposit ratio | 50.07% | 43.39% | 39.99% | 37.28% | 39.78% |

| | | | | | |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cost of Deposit | 6.33% | 6.23% | 5.57% | 4.84% | 4.09% |
| Yield on Loan and Advance | 7.58% | 7.88% | 8.78% | 7.14% | 6.85% |
| Return on Investment | 7.38% | 7.80% | 7.50% | 7.06% | 7.29% |

Table 6: Other ratios calculation

Source: Annual report of AAIBL (2017-2021)

Graphical Explanation:



Graph 6: Other ratios calculation

Interpretation: In 2017, 2020 and 2021 the ratio of income we got from the diagram is so high. The higher the ratios the lower the performance of the bank. In 2018 and 2019, the bank was able to reduce the average by 60.78%. Yields year after year were able to balance their returns on loans and improved AAIBLs. The return on investment is showing the most similar trend from 2017 to 2019 but banks should increase financial productivity in terms of investment. Credit deposit ratio

shows better deposits from creditors. So now is the time to make it profitable.

3.2 DuPont Analysis

It measures that how to increase the Return on Equity. It also uses to collect the investor and they attractive them.

| DuPont analysis | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------------|--------|-------|-------|--------|-------|
| Net income/ Total equity | 10.16% | 0.82% | 2.25% | 10.73% | 3.23% |

Source, Annual report 2017-2021

Here, we see that the percentage is ups and downs. The bank needs to increase the percentage of DuPont analysis through the years. In 2020 it was much higher (10.73%) than the year 2021 which is much lower (3.23%). To achieve the goal of the bank, the analysis output needs to go up than the year 2020 in future years.

3.3 Trend Analysis

Trend Analysis of Balance sheet of Al-Arafah Islami Bank Limited.

| Particulars | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|------|------|------|------|------|
| Cash | 100% | 132% | 150% | 165% | 184% |
| Cash in Hand (Including Foreign currency) | 100% | 85% | 92% | 74% | 73% |
| Balance with Bangladesh Bank and its Agent Bank(s) | 100% | 139% | 159% | 178% | 200% |

| | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| Balance with Other Bank and Financial Institutions | 100% | 72% | 97% | 172% | 270% |
| In Bangladesh | 100% | 58% | 114% | 201% | 273% |
| Outside Bangladesh | 100% | 122% | 39% | 69% | 259% |
| Money at call on short notice | 100% | 49% | 39% | 245% | 214% |
| Investments | 100% | 126% | 145% | 143% | 138% |
| Government | 100% | 127% | 146% | 140% | 126% |
| Others | 100% | 49% | 58% | 78% | 125% |
| Loans and Advances | 100% | 114% | 103% | 125% | 137% |
| Loans, Credits, Cash credits, etc. | 100% | 116% | 119% | 127% | 140% |
| Bills Purchased and Discounted | 100% | 76% | 64% | 81% | 84% |
| Fixed Asset including Premises, Furniture and Fixture | 100% | 101% | 101% | 102% | 102% |
| Other Assets | 100% | 107% | 138% | 114% | 101% |
| Total Assets | 100% | 111% | 128% | 134% | 140% |
| Liabilities | 0% | 0% | 0% | 0% | 0% |

| | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| Borrowing from other Banks, Financial Institutions & Agents | 100% | 94% | 87% | 81% | 75% |
| Deposit and Other Accounts | 100% | 111% | 133% | 137% | 141% |
| Current Accounts & Other Accounts etc. | 100% | 108% | 119% | 147% | 149% |
| Bills Payable | 100% | 71% | 431% | 98% | 103% |
| Savings Bank Deposits | 100% | 115% | 152% | 168% | 184% |
| Fixed Deposits | 100% | 112% | 120% | 119% | 119% |
| Other Deposits | 0% | 0% | 0% | 0% | 0% |
| Other Liabilities | 100% | 105% | 105% | 131% | 148% |
| Total Liabilities | 100% | 130% | 111% | 136% | 141% |
| Shareholders' Equity | 100% | 120% | 113% | 111% | 118% |
| Paid up Capital | 100% | 123% | 123% | 132% | 145% |
| Statutory Reserve | 100% | 100% | 109% | 134% | 151% |
| Other Reserve | 100% | 101% | 115% | 109% | 109% |
| Revaluation Reserve | 100% | 117% | 120% | 103% | 95% |

| | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | 0% | 0% | 0% | 0% | 0% |
| Total Liabilities and Shareholders' Equity | 100% | 111% | 128% | 134% | 140% |

Source: Annual report of AAIBL (2017-2021)

Trend Analysis of Income Statement Al-Arafah Islami Bank Limited.

| Particulars | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Interest Income | 100% | 108% | 104% | 93% | 109% |
| Income on Investment | 100% | 118% | 134% | 147% | 148% |
| Non-Interest Income | 100% | 106% | 115% | 134% | 131% |
| Total Income | 100% | 110% | 116% | 123% | 128% |
| Interest Expense | 100% | 108% | 109% | 99% | 90% |
| Non-Interest Expense | 100% | 109% | 150% | 151% | 148% |
| Total Expense | 100% | 108% | 119% | 111% | 103% |
| Net Interest Margin | 100% | 94% | 119% | 91% | 34% |
| Net non-Interest Expense | 100% | 109% | 150% | 151% | 148% |

| | | | | | |
|--|-------------|------------|------------|-------------|------------|
| Operating Profit | 100% | 101% | 50% | 140% | 237% |
| Profit before provision and Tax | 100% | 101% | 50% | 140% | 237% |
| Net Profit After Tax | 100% | 10% | 25% | 117% | 37% |

Source: Annual report of AAIBL (2017-2021)

Interpretation: Trend Analysis is a financial statements analysis technique that shows the number of financial statements items related over time. It is a useful tool for assessing trend situations. Statements for two or more periods are used in horizontal analysis. In 2017 to 2021 the percentage of cash has been increased from 132% to 184%. It showed that bank has paying attention in profitable transections to make sure better use of money. Cash in hand (including foreign currency) showing (85% to 73%) a reserve of money in the format of foreign reserve. Investment showing a positive trend from 2015 to 2019 which is (126%-138%) because of economical establishment in this country. Loan & advanced fluctuate from 2017 to 2021 at (114%- 137%). On the other hand, Bills Purchased and Discounted item showing a negative trend from 76% to 84%. In most cases the bank experienced constant rate of return. So, it has a positive effect to the bank's total asset which increased from 111% to 140%. On the other side bank played a better performance and got positive result. In income statement showing a good trend in interest income from 2017 to last year. The rate increased 100% to 109% the change is 9%. All the above net profit after tax has fluctuated following, they ear abnormally.

3.4 Common Size Analysis

Common Size Analysis of Balance sheet Al-Arafah Islami Bank Limited.

| Particulars | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| Cash | 6% | 7% | 7% | 7% | 8% |

| | | | | | |
|--|-----|-----|-----|-----|-----|
| Cash in Hand (Including Foreign currency) | 1% | 1% | 1% | 0% | 0% |
| Balance with Bangladesh Bank and its Agent Bank(s) | 5% | 6% | 6% | 7% | 7% |
| Balance with Other Bank and Financial Institutions | 4% | 3% | 3% | 5% | 8% |
| In Bangladesh | 3% | 2% | 3% | 5% | 6% |
| Outside Bangladesh | 1% | 1% | 0% | 0% | 2% |
| Money at call on short notice | 1% | 0% | 0% | 2% | 2% |
| Investments | 35% | 39% | 39% | 37% | 34% |
| Government | 32% | 37% | 36% | 33% | 29% |
| Others | 2% | 3% | 3% | 3% | 5% |
| Loans and Advances | 36% | 37% | 29% | 34% | 36% |
| Loans, Credits, Cash credits, etc. | 35% | 36% | 32% | 33% | 35% |
| Bills Purchased and Discounted | 2% | 1% | 1% | 1% | 1% |
| Fixed Asset including Premises, Furniture and Fixture | 4% | 3% | 3% | 3% | 3% |

| | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| Other Assets | 15% | 14% | 16% | 13% | 11% |
| Total Assets | 100% | 100% | 100% | 100% | 100% |
| Liabilities | | | | | |
| Borrowing from other Banks, Financial Institutions & Agents | 0% | 0% | 0% | 0% | 0% |
| Deposit and Other Accounts | 83% | 83% | 86% | 85% | 84% |
| Current Accounts & Other Accounts etc. | 17% | 17% | 16% | 19% | 18% |
| Bills Payable | 1% | 1% | 5% | 1% | 1% |
| Savings Bank Deposits | 20% | 21% | 24% | 25% | 27% |
| Fixed Deposits | 44% | 45% | 41% | 39% | 38% |
| Other Deposits | 0% | 0% | 0% | 0% | 0% |
| Other Liabilities | 10% | 10% | 8% | 10% | 11% |
| Total Liabilities | 94% | 93% | 94% | 95% | 95% |
| Shareholders' Equity | 6% | 7% | 6% | 5% | 5% |
| Paid up Capital | 3% | 4% | 3% | 3% | 3% |

| | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| Statutory Reserve | 1% | 1% | 1% | 1% | 1% |
| Other Reserve | 0% | 0% | 0% | 0% | 0% |
| Revaluation Reserve | 3% | 3% | 3% | 2% | 2% |
| | | | | | |
| Total Liabilities and Shareholders' Equity | 100% | 100% | 100% | 100% | 100% |

Source: Annual report of AAIBL (2017-2021)

Common Size Analysis of Income Statement Al-Arafah Islami Bank Limited.

| Particulars | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Interest Income | 100% | 100% | 100% | 100% | 100% |
| Income on Investment | 77% | 85% | 100% | 123% | 105% |
| Non-Interest Income | 116% | 115% | 129% | 169% | 139% |
| Total Income | 294% | 300% | 329% | 391% | 344% |
| Interest Expense | 145% | 145% | 153% | 155% | 119% |
| Non-Interest Expense | 43% | 43% | 62% | 70% | 58% |

| | | | | | |
|--|------------|-----------|-----------|------------|-----------|
| Total Expense | 188% | 188% | 215% | 225% | 178% |
| Net Interest Margin | 0% | 0% | 0% | 0% | 0% |
| Net non-Interest Expense | 43% | 43% | 62% | 70% | 58% |
| Operating Profit | 29% | 27% | 14% | 43% | 62% |
| Profit before provision and Tax | 29% | 27% | 14% | 43% | 62% |
| Net Profit After Tax | 20% | 2% | 5% | 26% | 7% |

Source: Annual report of AAIBL (2017-2021)

Interpretation: Common size analysis, also known as vertical analysis, is a tool that financial managers use to analyze financial statements. It evaluates financial statements by expressing each line item as a percentage of the basic amount for that period. The analysis helps to understand the impact of each item in the financial statements and its contribution to the figure of results. The cash item compared to total assets shows a slight change from 2017 to 2021. Investments show a growth of less than 35% to 37% from 2017 to 2020. Deposits and other accounts show a normal rate of change over the years. Although the savings deposit has been increased from 20% to 27%, the fixed deposit has been reduced from 44% to 38% with the exception of 2018. The bank has been able to control its liabilities so tightly. Over the years it has grown by 1%. On the other hand, investment returns show an improvement of 77% to 10%. Non-interest income has a positive trend of 43% to 58%. Net interest margins, various incomes like non-interest income as well as total operating expenses of operating profit also increased from 188% to 225%. All of the above data changes will result in a positive net profit after 2021.

3.5 SWOT Analysis of AAIBL

Internal factors:

Strengths:

- Excellent and reliable quality is always provided to customers by AAIBL in every service.
- AAIBL is a financially sound company.
- AAIBL makes use of cutting-edge technologies to guarantee dependable performance.
- AAIBL offers its employees a great environment to work.
- AAIBL offers its workforce a first-rate workplace.
- The AAIBL has a research department.

Weaknesses:

- In various regions, AAIBL lacks qualified human resources.
- AAIBL lacks aggressive advertising
- Compared to other banks, the credit facility application process is very drawn out.
- In certain regions, employees lack motivation.

External factors:

Opportunities:

- E-emergence banking's will provide AAIBL greater opportunities.
- AAIBL can implement more cutting-edge and inventive client service.
- Remote places may have a large number of branches.
- AAIBL can attract skilled, qualified, and experienced employees because it provides a pleasant workplace.

Threats:

- The issue is brought on by the global trend of financial institution mergers and acquisitions.
- Problems are being caused by frequent taka devaluations and fluctuations in foreign currency rates.

- Lots of new banks are coming in the scenario with new service.
- Local competitors can capture huge market share by offering similar products

Chapter 4

Findings

4.1 Findings

Liquidity ratio indicates the firm's ability to meet up its immediate demand in cash. Cash ratio of the bank been decreasing since 2019 which was 0.23 that means has been facing cash crisis and it is decreasing in 2021.

Loan to deposit ratio shows that in 2017 the ratio was .93 which is comparatively too low than next four years. At the same time, in 2017 it was 1.10 where as in 2018 it was 1.12. It means the bank could not able to make 6 profits as much as it expected.

Total asset turnover shows how much revenue a corporation has relative to its total assets. Al-Arafah Islami Bank Limited's performance decreased from 2017 to 2021.

Operating income to asset of the bank in 2017 & 2021 was low which indicates the lower income in comparison to total asset which indicate a bad operation of the bank.

Net interest margin (NIM) is the profit ratio that assesses the accuracy with which a business compares its income, costs, and debt while making investment decisions. The bank's negative net interest margin from 2017 to 2020 suggests that the corporation did not make wise selections over these four years.

Operating profit margin is a performance ratio that shows how much money a business produces from its operations before subtracting taxes and interest costs. It is predicted that the bank's expenses would increase from 2017 and 2020 to 2018 when the ratios decline to 2019 and 2021.

Cost to income ratio with the exception of 2020 and 2021, a downward trend from 2017 to 2019. In 2017 and 2018, the bank's cost of deposits was high, which was poor compared to the previous two years.

Return on Assets (ROA) is a form of return on investment (ROI) indicator that assesses a company's profitability in proportion to the value of all of its assets. From 2017 through 2021, the Return on Asset (ROA) ratio would fluctuate negatively.

Return on equity (ROE) is a metric that encompasses efficiency as well as profit. There is emerging evidence that a business may boost its profit margins without using as much cash. Return on equity (ROE) is declining in 2019 through 2021 because owners' equity or capital in these three years was not used effectively to generate large profits.

DuPont analysis measures the ROE. It is also attractive for the investors. If it decreases the DuPont in the previous that it is not good sign of the bank. The output of DuPont analysis is not satisfactory because in 2021 the result is much lower than the output of the year 2020.

In Trend analysis demonstrating a shift in the investment sector that is somewhat unfavorable. Therefore, the bank should expand its investment such that it is profitable. On the other hand, interest revenue has declined by up to 93% in 2020, according to a trend study of the income statement's net profit after tax. Therefore, the bank should have raised both its investment and interest income.

Common size analysis is a vertical analysis which is used as a tool of analysis by financial managers to analyze organizations financial statements. In common size analysis the internal and external cash or cash equivalent assets, deposits and reserve, equity, liability from the balance sheet are analyzed. Also, the income statement is analyzed through the common size method. In common size analysis 2019 and 2020 represents the higher percentages of the particulars but in 2021 those are showing a bit less percentages which are not a good sign for the bank.

In SWOT analysis the Strength and weakness are shown as the organization's internal factors, opportunity and threats are shown as the external factors for the bank.

Chapter 5
Recommendation

5.1 Recommendations

The bank's Cash ratio has been falling since 2017, thus it will have a cash shortage in 2017 and 2018. Therefore, to address the liquidity situation, banks should enhance their cash ratio.

Loan to deposit ratio was 0.93 in 2019, which is lower than it was for the next four years. In contrast, it was 1.12 in 2018 compared to 1.10 in 2017. Therefore, in order to enhance its profit, the bank needs raise both the loan and deposit amounts.

Total asset turns over shows how much revenue a corporation has relative to its total assets. Al-Arafah Islami Bank Limited's performance decreased from 2017 to 2020. Therefore, the bank should take action to solve this issue and boost investment revenue.

Operating income to asset of the bank in 2018 and 2021 was low, suggesting lesser revenue relative to total assets, which suggests poor bank management. In such circumstance, the bank should raise the interest rate on its loans.

In 2017 to 2020 the bank has negative Net interest margin (NIM), it indicates that in this four years' company has not been made effective decisions. So, bank should be focus on the profitability ratio.

In 2019, 2020 and 2021 Operating profit margin ratio falls, it is expected that the bank's expenses would increase between 2017 and 2020. Therefore, the bank should concentrate on cutting costs to raise operational profit margins. Return on Asset (ROA) from 2017 to 2021, the ratio will fluctuate negatively. As the bank should use its assets to boost both its ROA ratio and its profit.

In 2018, 2019, 2021, Return on equity (ROE) capital or owners' equity has decreased in these three years since it has not been used effectively to generate significant profit. Therefore, the bank should improve by using its capital.

Cost to income ratio indicates a downtrend from 2017 to 2018, with the exception of 2020 and 2021. In 2017 and 2018, the bank's cost of deposits was high, which was poor compared to the previous two years. Therefore, the bank should be able to cover its costs.

5.2 Conclusion

A whole nation's economic growth is heavily dependent on its financial sector. One of the top financial institutions in our nation, Al-Arafah Islami Bank Limited offers a wide range of financial services and basic banking advantages to the general population. Al-Arafah Islami Bank Limited. has added to its investments in import and export organizations. It is evident that it has to be taken into consideration appropriately. Banks with a strong local presence and expanding resources nationwide may be able to provide a greater place in the portfolio. The majority of the time, banks commercial organizations depend on efficient lending and fast assurance to succeed. Financial improvement in national and international perspectives, as well as financial institutions themselves as a sign of offer delivery to customers, will expand with large sums or contributions to remittances as well as overall activity. Each service provider has its own restrictions. Al-Arafah Islami Bank Limited. Also possesses, however the bank has a greater duty to its customers. In order for the bank to expand its service or product offerings. The bank is capable of living up to the goals it has set for the year. However, the bank officials should keep an eye on this and provide the required instructions to help the officers achieve their goals. The government's helping hand is essential for this, and it is expected that the government would extend its hand to enforce the recommendations for the welfare of Bangladesh's people.

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