Report on

Effect of Liquidity Management on the Profitability of Agrani Bank Limited and Prospects of ABL's SME products in Future

By

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An internship report submitted to the BRAC Business School in partial fulfillment of the requirements for the degree of
Bachelor of Business Administration

BRAC Business School

BRAC University

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Declaration

It is hereby declared that

1. The internship report submitted is my own original work while completing degree at BRAC University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I have acknowledged all main sources of help.

Student's Full Name & Signature:

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Syed Mahfujul Alam
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BRAC University

Letter of Transmittal

Syed Mahfujul Alam

Lecturer,

BRAC Business School

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66 Mohakhali, Dhaka-1212

Subject: Submission of Internship Report for the semester Fall 2019.

Dear Sir,

This is my pleasure to submit this internship report on "Effect of Liquidity Management on the Profitability of Agrani Bank Limited and Prospects of ABL's SME products in Future."

While preparing the report I left no stone unturned to make it worth and fit the purpose of it. Several information has been included to ensure analysis is done effectively and by following your guidance I have been able to accomplish it.

I hope this piece of work has met the standards required in course BUS400 and your evaluation of same will give it completeness.

Sincerely yours,

____

Nazir Ahmed

14204121

BRAC Business School

BRAC University

Date: January 6th, 2020

Non-Disclosure Agreement

Being an intern in Agrani Bank Limited, I have had access to much information of which some may be subject to confidentiality. I understand that I am required to maintain confidentiality of this direct or indirect information at all times, both during and after my internship experience. I understand that I will not share, discuss, or reveal any of this information with anyone.

Intern's Full Name & Signature:

Nazir Ahmed

Organization's Supervisor Full Name & Signature:

Nahid Sultana Chowdhury

Assistant General Manager

Agrani Bank Limited

Acknowledgement:

To begin with, I would like to thank the almighty Allah for giving me the strength and capability to complete this report and the entire under graduation program.

Secondly, I would like to appreciate and thank my university internship supervisor Mr. Syed Mahfujul Alam sir for providing me the guidance and support. Without his guidance, it would not have been possible to complete this report effectively.

Besides that, I would like to spread my gratitude to the line manager of Agrani Bank Limited, Mrs. Nahid Sultana Chowdhury, who has been guiding me throughout the internship program. She has supported me and taught me all the necessary things to complete my task in the office premises.

Moreover, I would like to thank all the faculty members of BRAC University. Their extraordinary talent and knowledge has given me the confidence and has created an energy to prove my talent in the field of corporate.

Executive Summary

This internship report is prepared for analyzing the effect of liquidity management of the profitability of Agrani Bank Limited and prospects of ABL's SME products in future. Both primary and secondary data were used in order to complete this report and interviews were conducted to gather primary data. In the process, I came to know that Agrani Bank Limited gives a lot of importance in managing their liquidity management policies and they have a system which will alert them before any potential liquidity crisis. An analysis was done through CAMEL analysis to evaluate the performance, liquidity and profitability of Agrani Bank. Trend analysis was done for the previous five years and cross-sectional analysis was done among three banks. Furthermore, prospects of SME products of ABL were explored through the analysis of portfolio composition, SME loan disbursement history of ABL and investment comparison. Lastly, some recommendations were suggested to improve the performance of ABL.

Keywords: Liquidity; Profitability; SME; Agrani Bank; Management; Prospects.

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List of Acronyms

ABL	Agrani Bank Limited
SME	Small & Medium Enterprises
DSE	Dhaka Stock Exchange
EPS	Earnings per share
SBL	Sonali Bank Limited
NPL	Non-performing loan
FDR	Fixed Deposit Receipt
JBL	Janata Bank Limited
ROE	Return on Equity
CAR	Capital Adequacy Ratio
SEC	Securities & Exchange Commission

Glossary

CAMELS Rating: A method to evaluate the performance of a bank.

Trend Analysis: Analysis done by looking at the past performance of the company and comparing it with the present.

Cross Sectional Analysis: Analysis is done looking at the company's competitors and conclusion is drawn.

❑ Chapter 1: Introduction

1.1 Report Background:

Commercial banks play a significant role in any economy. Being the key element of the financial system, banks share out funds from savers to borrowers in a proficient manner. Generally individual investors lend their money to the banks as the banks pay them some interest for it, then the banks lend this money to business people, different institutions and individuals. This process is known as financial intermediation. Banks derive profits from the difference between the interest rates of deposits and loans. Financial intermediation circulates the flow of money in a financial system which is very important for the economy of a country. Moreover, customers have different types of liquidity preference, banks provide services to all types of customers. As banks check the credit worthiness of a person before providing loan to them, they encourage the right type of industries by giving loan to the right type of person which is of great importance for the economic development of a country. In addition, Commercial banks play a vital role in capital formation which is inevitable for the development of an economy.

1.2 Liquidity Management in Banks:

The main objective of banks is to maximize their profit as much as possible. However, banks give a lot of importance in liquidity management as it helps them to avoid risks. In the time of financial crisis, banks which have more excess to liquid assets are more capable of handling that crisis. It is really important for the banks to have more excess to liquid assets because during the time of crisis other banks will be unable to provide loans to them. When banks are in need of more liquidity, they offer less liquidity to their customers. This is the elemental relationship between liquidity and banks. Bank's liquidity risk decreases when they have more excess to liquid assets and having excess liquid assets is regarded as liquidity cushion or buffer.

Liquidity Management is really important for a bank for various reasons such as to exhibit that the bank is safe to invest on and capable of repaying their borrowers, to ensure that the bank can meet its preceding loan commitments, to avoid selling assets below market value at the time of crisis and to minimize the use of discount window. It is a significant decision for a bank whether they will follow the aggressive approach or the conservative approach because if the bank has less liquid assets they might lose their reputation; on the other hand if they have excess liquid assets they will have idle investments which will not fetch any income, this might leave a negative impact on profitability. This is why banks management has to be really careful while taking decisions for liquidity management.

1.3 Working Capital Management:

Working capital management refers to the administration of the capital that a company needs to function on a daily basis. It is the capital available to a company for running their day to day operations. Generally the working capital is the difference between the current asset and current liability of a company where current assets refer to cash and assets that will be liquid within one year and the current liabilities refer to debts that will be due in one year. Working capital is needed for covering unexpected costs, making timely payments and buying raw materials for production. Working capital management includes revenue collection, payment to suppliers, debt management and inventory management. Moreover, working capital management supports the cash conversion cycle which is the minimum amount of time needed to convert the current assets and liabilities into cash. The strategy to maintain working capital properly requires tracking three ratios which are working capital ratio, collection ratio and inventory ratio.

There can be several types of working capital such as fixed, reserved, regular and temporary. Fixed working capital are the properties on which the company has permanent access such as machineries, reserved working capital is kept for emergency cases, regular working capital is used to run the regular operations and temporary working capital is kept for special events such as natural disasters. Having different types of working capital helps a company to operate smoothly when they have invested a large amount of money and waiting for their investment returns. The primary objectives of working capital are to preserve the working capital operating cycle, to assure its ordered operation, to maximize the investment returns and to minimize the cost of capital spent on working capital. Managing working capital properly is vital for a company's financial growth and operational success. Proficient working capital management aids to sustain balanced operations. In order to maximize a company's operational proficiency, it is essential for them to manage their working capital properly. An indicator of a quality business management is the capability of exploiting working capital management in order to sustain proper balance among growth, liquidity and profitability.

1.4 Short-Medium Enterprises (SME):

The uplift of a country's economy exceedingly depends on how the investments are performed within the country. In our country, we have a huge supply of labor and the cost of labor is low as well. An investment on SME can create new workplace which will help to employ this huge supply of labor. As a result, investing on SME can be beneficial for the economy of Bangladesh. SME can fetch positive changes in the economy of Bangladesh. Differentiating the firms in accordance with their types can be beneficial for making smooth investments. Bangladesh Bank published some criteria based on which small and medium enterprises can be easily distinguished.

1.4.1 Small Enterprise:

According to Bangladesh Bank, a small enterprise is a kind of firm that is not publicly listed and has the following characteristics:

Serial No	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
01	Service	50,000-50,00,000	25
02	Business	50,000-50,00,000	25
03	Industrial	50,000-1,50,00,000	50

Table 1: Requirements for being a small enterprise

1.4.2 Medium Enterprise:

According to Bangladesh Bank, a medium enterprise is a kind of firm that is not publicly listed and has the following characteristics

Serial No	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
01	Service	50,00,000-10,00,00,000	50
02	Business	50,00,000-10,00,00,000	50
03	Industrial	1,50,00,000-20,00,00,000	150

Table 2: Requirements for being a medium enterprise:

1.5 Aim & Objective of the Study:

The objectives of the study can be categorized in two aspects:

1.5.1 Aim of the study:

"Exploring the effect of liquidity management on the profitability of Agrani Bank and analyzing the prospects of investing in SME in future."

1.5.2 Objectives of the study:

- ✓ To evaluate the performance of ABL in recent years through CAMELS analysis.
- ✓ To compare the performance of ABL with other state owned commercial banks.
- ✓ To observe the effects of liquidity management on the profitability of ABL.
- ✓ To explore the growth of SME investments of ABL in recent years.
- ✓ To analyze the growth prospects and challenges of investing in SME in future.

1.6 Scopes of the Study:

Right after completing the undergraduate program, the internship course, BUS400 of BRAC University helps the students for acquiring several opportunities to get disclosure to the corporate world. The purpose of the study is to observe the effect of liquidity management on the profitability of ABL and prospects of investing in SME in future. Ten employees of the bank were interviewed in the process for collecting primary data and the employees of the bank were very helpful while giving the interview. Furthermore, secondary data were collected from different websites for the help of the study and to make it more credible. In order to do the trend analysis and cross sectional analysis secondary data were collected from the financial reports of different banks. This study will help people to understand the effects of liquidity management on the profitability of a company. If anybody desires to know about the practical issues regarding the liquidity management policies of a bank, this report would be beneficial for them. This report would help people to know about the prospects of investing in small medium sized enterprises in Bangladesh in future. Lastly, the recommendations I gave in this report might help Agrani Bank Limited to make their liquidity management policies more efficient.

❑ Chapter 2: Literature review

2.1 Background of Literature:

Liquidity Management is the capability of a bank to respond to the immediate financial needs of their customer. Having more excess to liquid assets enables a bank to decrease its risk during a financial crisis. Liquidity management and working capital management are closely related to each other. Banks have to be really cautious when taking decisions related to liquidity because having too much liquid asset creates idle investment. Working capital management is the management of current asset and current liability in the most optimal way so that the shareholders can get more benefit from it (Demirgunes and Sarniloglu, 2008). According to Dougall and Guthmann (1982), working capital is surplus of current assets over current liabilities. Managing working capital properly is very important for a company because it supports the company to handle unexpected problems. According to Adagye (2015), WC management plays a very significant role in managing a firm’s risk, profitability and liquidity. Management of current asset and current liability has direct influence over the profitability of the firm (Ravipati & Das, 2009). Moreover, working capital management is important because it has a direct impact on firm's liquidity position and profits that has the possibility of coming in the future (Taleb, 2010). Now a days, most of the companies see the mismanagement of working capital as a vital problem and try to take necessary measures that will result in a more proficient working capital (Ademola, 2014).

2.2 Effects of Liquidity Management on the Profitability of Banks:

Liquidity ascribes to the capability of a bank to assure the availability of funds and to fulfil its financial commitments or obligations at a reasonable price at all times. Commercial banks cannot afford to lose their customers and in order to do that they need to have the ability to fulfil the immediate financial needs of their customers. According to Husni (2011), banks management committee need to be really careful when taking any kind of decision related to liquidity because they cannot have residual cash as it will result in idle investment nor they can have any shortage of cash as it will cost them their customers. Liquid assets are generally regarded as the same as cash because their price is relatively static when they are sold in the open market. Examples of liquid assets would be cash, government bonds, most stocks and money market instruments. Brissmis & Delis (2005) described that the profitability of a bank is the capability of that bank to generate profit after maintaining all their expenses. An efficient and profitable bank will be able to withstand financial crisis and will contribute to the stability of a financial system. A chart of internal and external sources of liquidity and risks is given below:

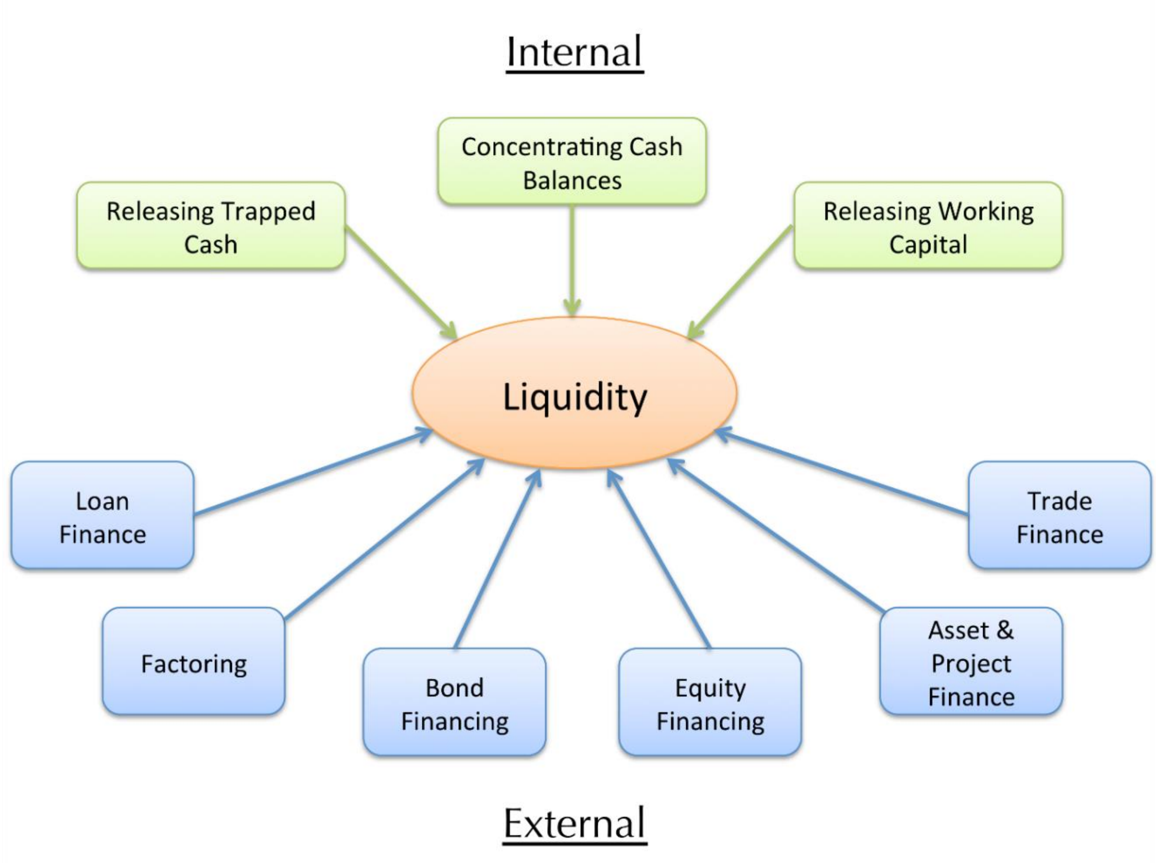


Figure 1 : Factors related to Liquidity

2.3 CAMELS Rating:

CAMELS rating is a rating scheme which assesses the overall performance of a bank and measures its strengths and weaknesses. It is an internationally recognized and widely used method. CAMELS stands for capital adequacy, asset quality, management capacity, earnings ability, liquidity management and sensitivity to risks. In this rating system capital adequacy examines the capital of a bank against its risk weighted assets, asset quality observe the percentage of classified loans, management capacity tests the net profit and expenses per employee, earnings ability examines the profit of a bank and liquidity measures the capacity of a bank to meet its short term obligations. In recent times CAMEL has become a popular technique among the shareholders to evaluate a bank's performance.

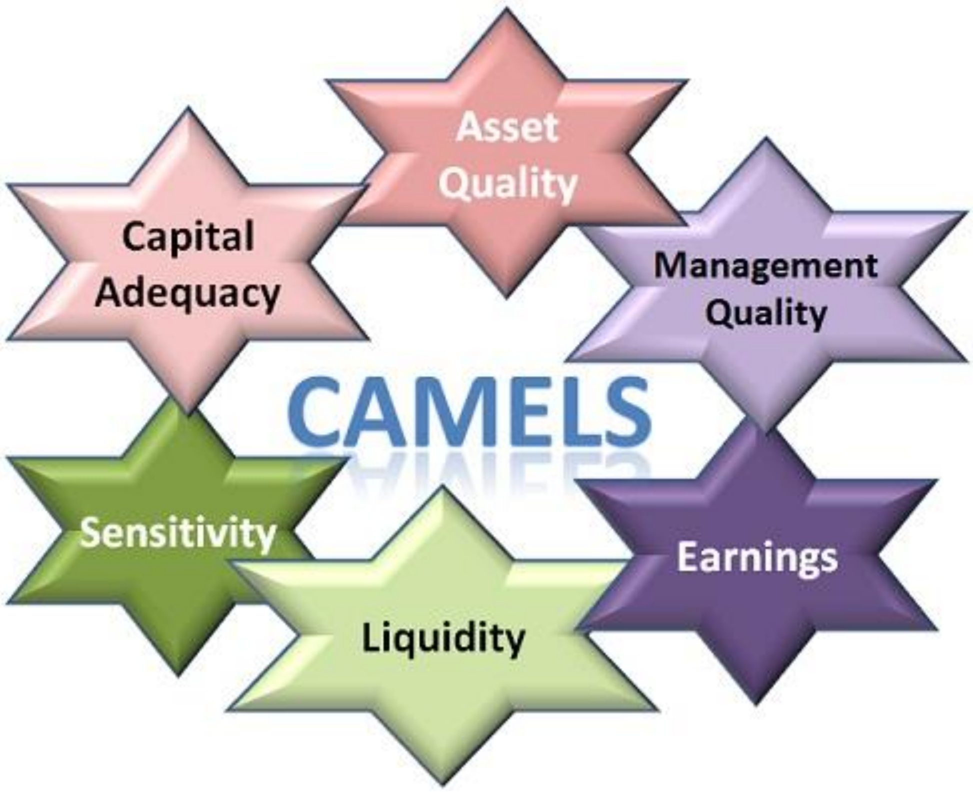


Figure 2 : CAMELS Ratio

2.4 Relationship between liquidity management and profitability in Banks:

Liquidity management has a direct influence on a firm's profitability. A study was done by Gamlath and Rathiranee (2015) on the commercial banks listed in Colombo stock exchange (CSE) to observe the relationship between liquidity management and profitability. The analysis of the study shows that the proper management of the liquidity has a significant influence over the firm's profitability. Liquidity management is closely related to working capital management. Sharaf & Haddad (2015) analyzed the relationship between the profitability and working capital management on the listed companies in Amman Stock Exchange (ASE). The research findings shows that there is a negative correlation between cash conversion cycle and profitability of a company. Another study was conducted by Balasundaram (2014) on the manufacturing companies in India to see the impact on WCM on profitability. The research results clearly shows that the cash conversion cycle and return on assets are negatively correlated with each other which means when the cash conversion cycle increases the return on assets decreases and when the cash conversion cycle decreases the return on assets increases. This proves that the profitability of a company is directly related with the management of its working capital. A figure is given below explaining the relationship between working capital management and profitability.

Forghani (2013) conducted a study on 56 companies listed in Tehran Stock Exchange (TSE) in Iran to see the connection between the working capital and financial performance of a firm. The study revealed that there is a positive relationship between the working capital management and profitability of a company which means by managing the working capital properly a company can earn more profits. The study also concluded that the managers can achieve greater profitability by adopting better strategies for working capital management. Proper working capital management makes sure that the company has enough cash flow to fulfill its operating expenses and short term obligations. If a company can not meet its short term obligations within time they may lose their customers which will have a direct impact on their profitability. Furthermore, another study was conducted by Nazir & Afza (2007) on the listed companies in Karachi Stock Exchange (KSE) to compare the relationship between conservative and aggressive working capital management policy. The research results revealed a negative relationship between the degree of aggressiveness of a firm’s working capital policy and its profitability.

Bank's financial management policy includes decisions which is of great importance and working capital management is undoubtedly one of them. WCM includes the decisions of managing the current assets and current liabilities. Decisions made on working capital management has a positive relation with the profitability of the organization (Ali, 2012). WCM has direct influence over a firm's profitability and liquidity and it is true for almost each and every industry. A research was done by Teruel & Solano (2007) on 8,872 small and medium sized Spanish firms to see the effects of working capital management decisions on the profitability of the organization. The study affirms the direct impact of working capital management decisions on the profitability of the organization. Another study conducted by Guila (2014) on 60 pharmaceutical company to find the impact of WCM on their profitability. Again, the results showed that WCM has a positive and significant influence over the firm's profitability. All these research clearly proves that WCM has significant influence over the firm's profitability no matter what the industry is.

2.5 Significance of efficient working capital and liquidity management:

Efficient liquidity management involves obtaining maximum utilization of all its assets. Liquidity management is closely related to working capital management. Quality working capital management ensures that the firm is managing their current assets and current liabilities in such a way that are producing the maximum returns. For managing WCM properly, firms has to make efficient and minimum investment on current assets while it can support the unexpected costs as well. Qureshi (2014) conducted a study on the listed companies in Karachi Stock Exchange (KSE) to find the involvement of the working capital management on the profitability of the firm. The results shows that WCM has significant impact on the firm's profitability and the study also concludes that cash conversion cycle and inventory turnover are two vital determinants for a firm's financial performance. Piabuo (2016) conducted a research on Afriland First Bank of Cameroon to determine how the WCM affects profitability. The research findings clearly prove that working capital management has a direct impact on the financial performance of the bank. According to Eljelly (2004), objective of a quality working capital management is to manage the firm's current asset and current liability in such a way that can avoid the risk of short term default.Working capital management simply means the management of current assets and current liabilities. Managing current asset requires minimizing the number of days a company has to hold their inventories and managing current liabilities requires receiving the account receivables as promptly as possible.

Nimalathasan (2010) did a research on the listed companies in Colombo Stock Exchange (CSE) to identify the influence of working capital on the profitability of a company. The findings of the research revealed that cash conversion cycle and return on assets are negatively correlated which means if cash conversion cycle increases, return on assets decrease and if the cash conversion cycle decreases, return on assets decrease. The results also concluded that managers can increase the profitability of their firm by alleviating the number of day's inventories and account receivables.

An efficient working capital management gives a company competitive advantage over their competitors because it enables a firm to be better at creating internal funds and it helps a firm to look for external sources of credit when they need it. Khan & Siddique (2009) found that the firms which are better at managing their working capital are generating more profits from their competitors. A study was conducted by Oladipupu & Okafor (2013) on WCM practices and dividend payout ratio. The results revealed that shorter cash conversion cycle and debt ratio leads to higher profitability. According to Azeem & Rehman (2014), better strategies of working capital management can lead to higher operational liquidity. Considering all these findings we can conclude that to achieve operational success a firm has to adopt efficient policies for working capital management.

2.6 Contradictory views:

However, some study results showed the opposite view. Laplante & Mousawi (2009) found that firms with higher working capital would give away more interest expenses, eventually which can lead to bankruptcy. Deloof (2003) found no significant relationship between cash conversion cycle and firm's profitability when doing the research on 884 Belgian non-financial firms. Furthermore, in a research done by Avinasab (2013) on 153 listed companies in Tehran Stock Exchange to observe the relationship between the working capital management and the profitability of a firm. The research findings showed a negative relationship between WCM and profitability. Moreover, after implying the concept of less working capital will generate less interest expense which eventually will lead to higher profitability, Vijaykumaran (2017) found that there is a non-linear relationship between working capital management and profitability.

After analyzing all these researches and analytical works it can be said that a firm will achieve more profits if they adopt efficient working capital management policies. Most of the mentioned studies supported the idea that by maintaining minimum number of day's inventories and account receivables a firm can generate higher profits. Majority of the researchers used correlation and multiple regression to empirically test the influence of working capital management over firm's profitability. Though some researchers found contradictory results, when considering majority of the findings, it is safer to say that proper working capital management has significant influence over a firm's profitability.

❑ Chapter 3: Company Background

3.1 About Agrani Bank Limited:

Agrani Bank Limited (ABL), initially started its journey as a state owned commercial bank in 1972. It was induced as a public limited company on May 17, 2007. Today, in 2019, Agrani Bank has 11 circle offices, 53 zonal offices and 956 branches throughout the country employing over 20,000 people. ABL has 6 subsidiary companies among which are a merchant bank, a SME financing company and 4 remittance houses located in Singapore, Malaysia, Canada and Australia. Agrani Bank was honoured with Bangladesh Bank Remittance award in 2009, 2015 and 2017 for collecting the highest remittance in a fiscal year. Moreover, ABL received performance excellence award in 2017 and ICMAB best corporate awards in 2015.

According to ABL website, a board of directors consisting 10 members, led by the chairman, govern all the activities of Agrani Bank. The board of includes a chairman, 8 directors and the managing director & CEO. The current chairman and CEO of ABL are Dr. Zaid Bakht and MD. Shams-Ul Islam. The bank is led by the managing director & CEO who is aided by deputy managing directors and general managers.

Agrani Bank provides 6 types of banking services which are general banking, agriculture and rural banking, green banking, merchant banking, Islamic banking and agent banking. ABL earns most of its profits from general banking which provides different types of services such as saving deposits, fixed deposits, farmers account, debit card, loan syndication etc. ABL was the first state owned commercial bank to establish agent banking in Bangladesh. Now, 200 agent booths of ABL are handling agent banking activities throughout the country. Since 2010, Islamic Banking

Unit through 5 Islamic windows is controlling the activities of Islamic banking department of ABL.

3.2 Mission, Vision and Core-Values ABL:

Mission: To operate at international standard of efficiency, quality, management, customer service and liquidity.

Vision: To become the best state owned commercial bank in Bangladesh.

Core-Values: The values based on which Agrani Bank Limited takes its decisions, makes strategies and interact with customers, employees, clients and stakeholders are as follows:

- ✓ **Integrity**
- ✓ **Accountability**
- ✓ **Diversity**
- ✓ **Transparency**
- ✓ **Professionalism**
- ✓ **Growth**

3.3 Strategic Objectives:

- ✓ Applying modern approaches in order to compete with the other banks.
- ✓ Attaining competitive advantage by lowering total cost compared to the competitors.
- ✓ Getting over the competitors by providing the best customer service.
- ✓ Gaining at least 6.5% share of loans and advances in the local market.
- ✓ Focusing on remittance, SME and agricultural sectors in order to contribute to the economy of the country.
- ✓ Emphasizing on research to come up with innovative products.

- ✓ Becoming the best in technological sectors among the competitors.
- ✓ Increasing the bank's brand recognition.

3.4 Products and Services of ABL:

Deposit product: Mostly used deposit products are – savings bank account, current deposit account, fixed deposit account, Agrani Bank pension scheme, savings account, ABS account, special noticed deposit account, Agrani Bank nari amanot scheme, Agrani super savings scheme and Agrani education scheme.

Loan Product: Agrani Bank provides loan for any purpose as long as the purpose is valid. Some of the loan products are – personal loan, freedom fighter loan, loan for overseas worker, green banking finance and short term SME loan.

Services: Agrani Bank provides their customer with ATM services, fund transfer services known as "Swift", locker services, agency services and utility bill collection services. Agrani Bank had won "Bangladesh Bank Remittance award" 5 times for collecting the highest remittance in a fiscal year. ABL also provides special services for non-resident Bangladeshis such as foreign currency account, non-resident foreign currency deposit and Agrani exchange house.

3.5 SME programs of Agrani Bank Limited:

Agrani Bank had initiated SME financing since their commencement. ABL has given priority to support the small entrepreneurs with credit as this investment is more promising in case of generating income. As a result, ABL has invested 58% of their total SME credit portfolio to the small entrepreneurs. Some of the SME programs of ABL are – Special micro credit program, Nari Agrani, loan for disable person, SME loan program etc.

Hierarchy of Agrani Bank Limited:

Figure 3 : Hierarchy of ABL

❑ Chapter 4: Methodology

Quantitative approach was chosen when doing this report. Being one of the leading state owned commercial bank, Agrani Bank Limited already has a structured working capital management policy; I tried to analyze that policy in this report by examining their cash conversion cycle, inventory turnover ratio, days sales outstanding, days payable outstanding, current ratio, quick ratio and debt ratio. For analyzing these ratios, data were taken from the financial report of ABL from the year 2014 to 2018. Furthermore, I tried to analyze how those policies are managed. When doing this report, different methods were used so that the report can meet its purpose and to make the report effective. Secondary data were used mostly for completing this report. However, in order to make the report more credible both primary and secondary data were collected and implemented. However, while collecting the data several limitations were engaged. These are consulted in the following part of the report.

4.1 Data Sources:

The nature of this report is quantitative. In order to complete this report data were gathered from both primary and secondary sources.

4.1.1 Primary Data:

Primary data were gathered by interviewing the employees of the Basabo branch of Agrani Bank Ltd informally. This is a small branch employing only 26 people. I interviewed the people with whom I had to interact most of the time. I tried to interview the employees who had at least 5 years of experience in the bank so that I can get more reliable data. The branch manager was very helpful in this regard, I interviewed her twice and she was always very helpful. Several open ended and relevant questions were asked in the interview to know about the liquidity management policies of Agrani Bank. Personal observations from the experience of working as an intern in the bank also helped to know about the company.

4.1.2 Secondary Data:

Secondary data were also collected and implemented for making sure that the analysis of the report is completed on strong ground and with enough information. With this intention, following procedures were used:

- ✓ Agrani Bank Limited website was visited and last five year's financial reports were downloaded.
- ✓ The websites of related competitors were visited as well and financial reports were downloaded and used in the analysis part of the report.
- ✓ Different offline and online journals were used for understanding purpose and for collecting data.

❑ Chapter 5: Findings and Analysis

Financial performance of Agrani Bank is analyzed through CAMELS ratio analysis in this report. Six factors which are represented by CAMELS has been analyzed. Effect of liquidity management on the profitability has been the focus of this report and liquidity management ratios will be compared with other ratios including the cross sectional analysis.

5.1 Capital Adequacy:

Capital adequacy is the indicator whether the bank has enough capital to cover all its expenses and unexpected costs. It indicates how the bank will perform during a financial crisis. In this section capital adequacy ratio, leverage ratio, debt to asset ratio and loans to total asset ratio will be explored to analyze the strength of capital of ABL.

5.1.1 Capital Adequacy Ratio (CAR):

The capital adequacy ratio takes the measurement of whether a bank is financially stable by using a bank's capital and total risk weighted assets. Generally a bank with high capital adequacy ratio is financially stable and more likely will be able to meet its short term and long term obligations. After realizing the necessity of CAR ratio, Bangladesh Bank has made a policy that each bank of Bangladesh is required to have a minimum CAR ratio of 10%.

Capital adequacy ratio= Capital & Reserve/ Total risk weighted assets

Ratio	2014	2015	2016	2017	2018	Mean
Capital to risk weighted asset ratio	10.44%	9.54%	10.03%	10.24%	10.09%	10.068%

Table 3: Capital Adequacy ratio

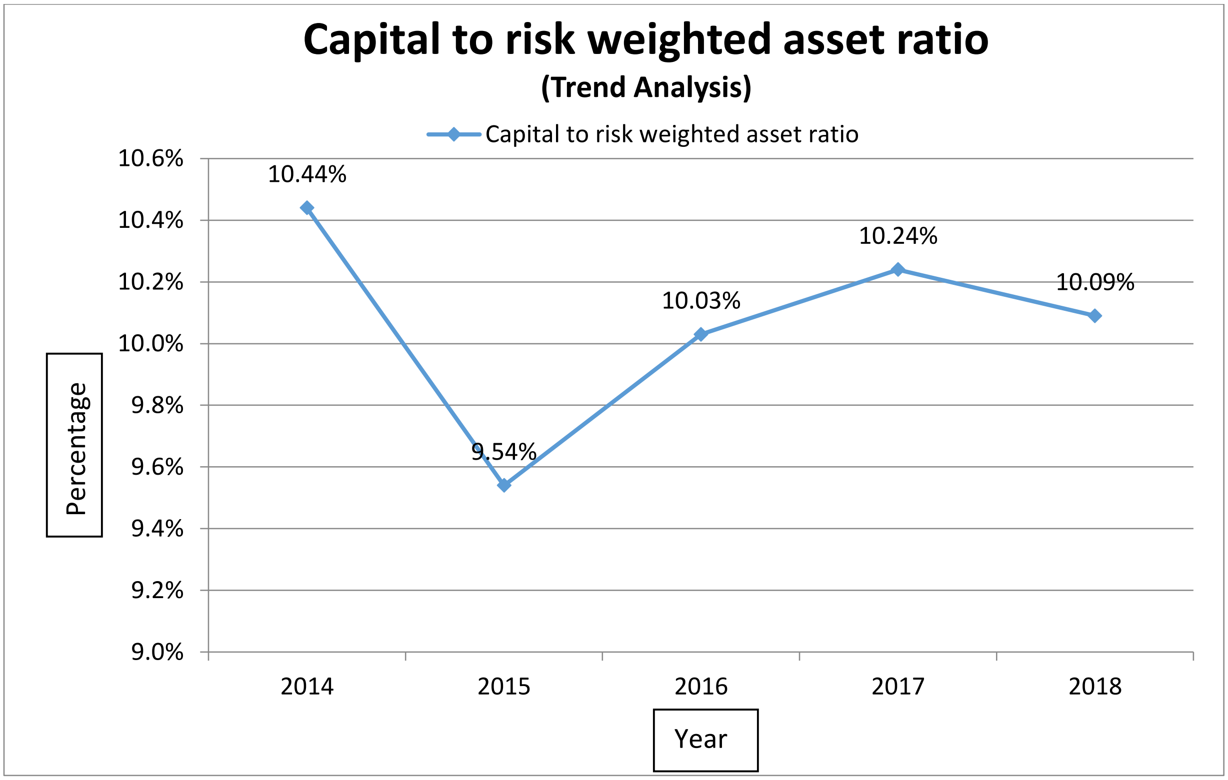


Figure 4 : Capital to risk weighted asset ratio (Trend Analysis)

The Agrani Bank has been able to maintain an average CAR ratio of 10.068% over the last five years. Moreover, the ratio dropped to 9.54% in the year 2015 which is lower than the requirement set by Bangladesh Bank. This implies that ABL has to find a way to increase their capital & reserve.

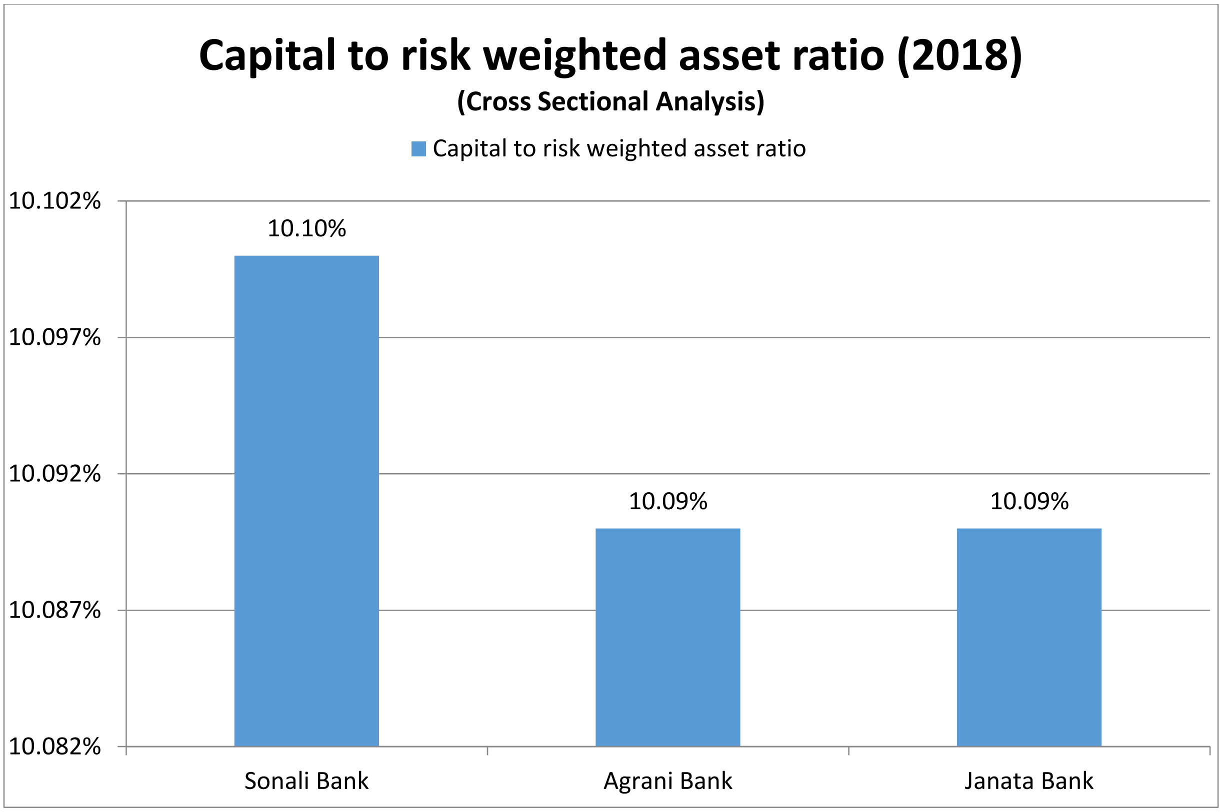


Figure 5 : Capital to risk weighted asset ratio (Comparative Analysis)

The cross sectional analysis also shows that Agrani Bank does not have a competitive CAR ratio. Here Sonali Bank highest CAR ratio and ABL has the lowest.

5.1.2 Leverage Ratio (Debt to Equity Ratio):

Leverage ratio examines whether the bank has the capability to meet its financial obligations.

Leverage ratio= Total debt/ Total equity

Ratio	2014	2015	2016	2017	2018	Mean
Leverage ratio	970%	984%	1350%	1554.6%	1797.48%	1331%

Table 4: Leverage Ratio

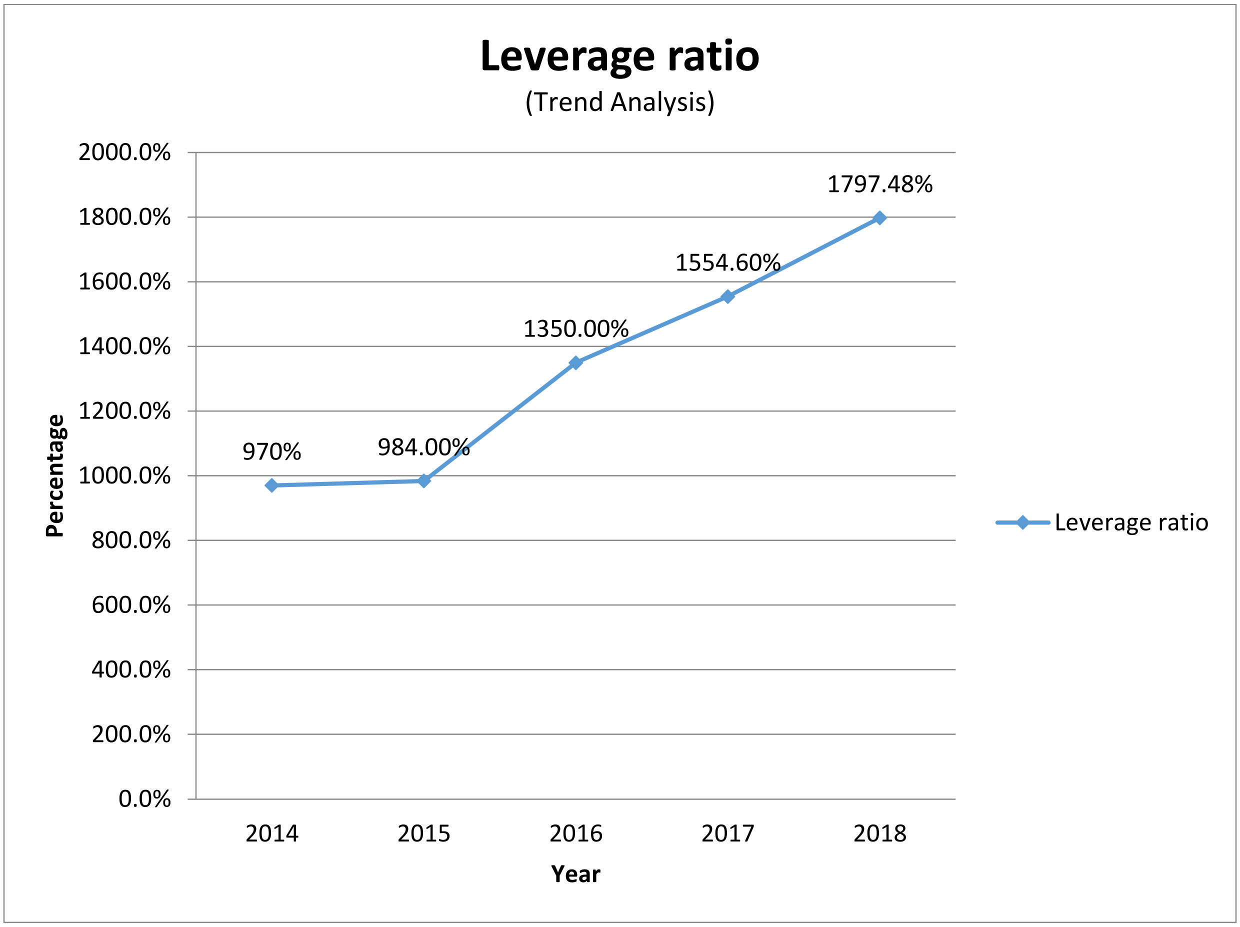


Figure 6 : Leverage Ratio (Trend Analysis)

The leverage or debt to equity ratio of ABL has an average of 13.31 times or 1331% which is satisfactory. In 2014, the ratio was 970%, each year it increased and almost double at 2018 to 1790% which indicates that they have a strong leverage ratio.

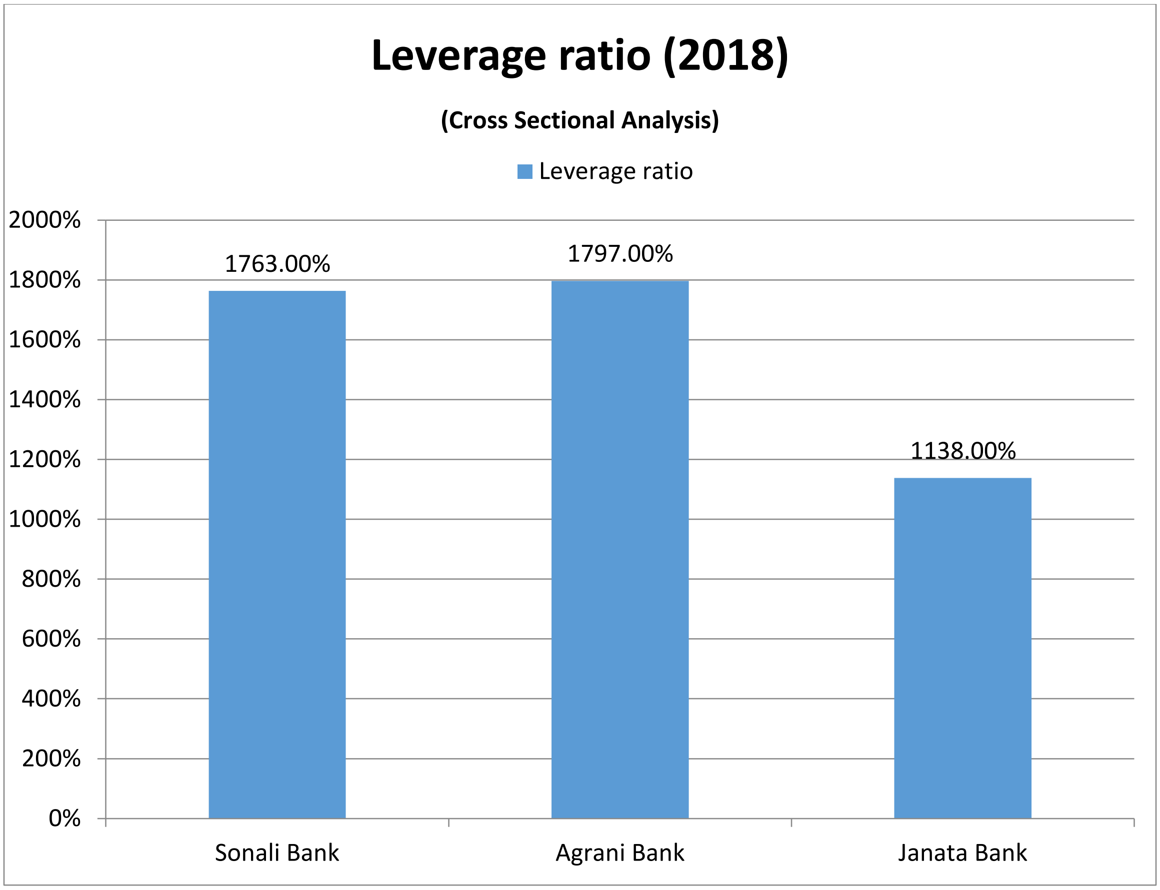


Figure 7 : Leverage ratio (Cross Sectional Analysis)

The cross sectional analysis also indicates that ABL has a satisfactory leverage ratio. Among the banks we had done the analysis, ABL has the highest leverage ratio.

5.1.3 Loans to Total Asset Ratio:

The loans to total asset ratio measures how much loan a bank has comparing with its total asset. Higher loans to total asset indicates a bank has too much loan and it creates risk for the bank. Lower loans to asset ratio is better because it indicates that the bank has efficient asset to back up the loan it has.

Loans to Total Assets Ratio= Total loans/ Total assets

Ratio	2014	2015	2016	2017	2018	Mean
Loan to Total Assets Ratio	47.50%	43.30%	42.63%	47.35%	50.14%	46.18%

Table 5 : Loans to Total Asset Ratio

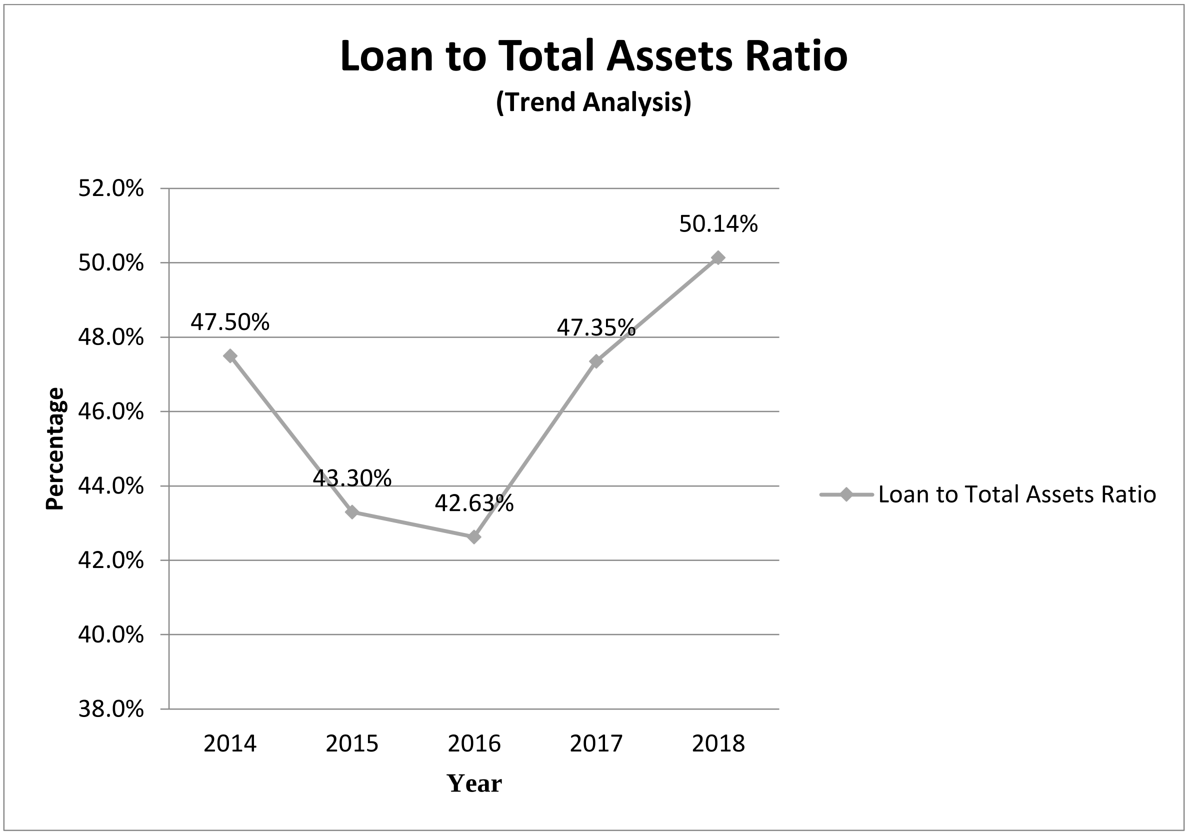


Figure 8 : Loan to Total Assets Ratio (Trend Analysis)

The average loans to total assets of ABL for the last five years is 46.18% which seems to be satisfactory. However, the ratio is increasing and in 2018 the ratio is 50.14% which indicates ABL has been taking more loans but their assets is not increasing comparing with the loans.

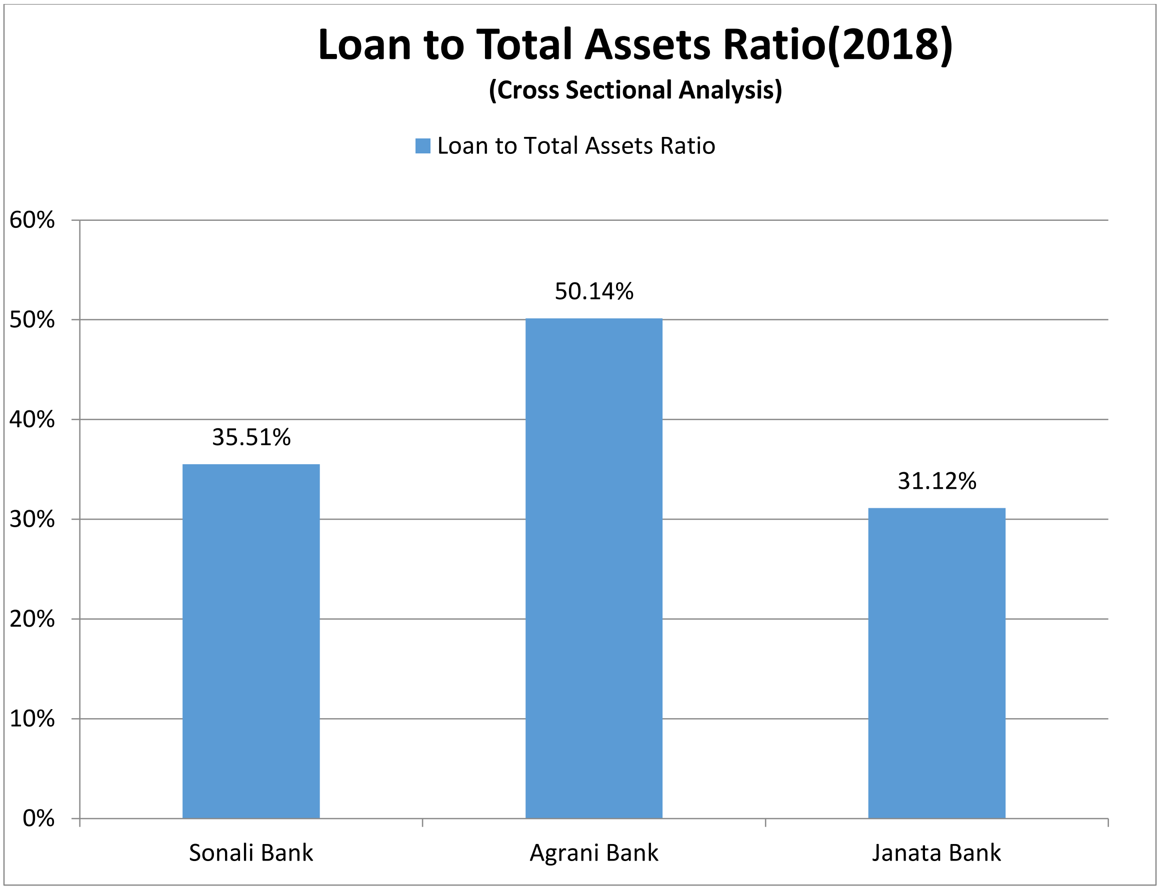


Figure 9 : Loan to Total Assets Ratio (Comparative analysis)

The cross sectional analysis of loans to asset ratio in 2018 also indicates that ABL does not have a good loans to asset ratio. They have taken too much loan comparing to their assets. Janata Bank has the lowest as well as the best loans to asset ratio among the three banks.

5.2 Asset Quality:

Generally, most of the assets of a bank are covered by its loans which also possess the highest risk among all the assets. That is why the asset quality of a bank is mostly affected by its loan portfolio. So, the percentage of the classified loans is tested in order to assess a bank's asset quality.

5.2.1 Percentage of Classified Loans:

The key source of revenue for a bank is their scheduled loan payments. The percentage of classified loan ratio examines a bank's scheduled loans. In this ratio non-performing loan of a bank is compared with the total amount of loan the bank is holding. This ratio measures how a bank is doing in taking the repayment of their loans.

Percentage of Classified Loans= Non-performing loan/ Total loans

Ratio	2014	2015	2016	2017	2018	Mean
Percentage of Classified Loans	17.67%	17.45%	25.59%	17.45%	17.67%	19.17%

Table 6 : Percentage of classified loans

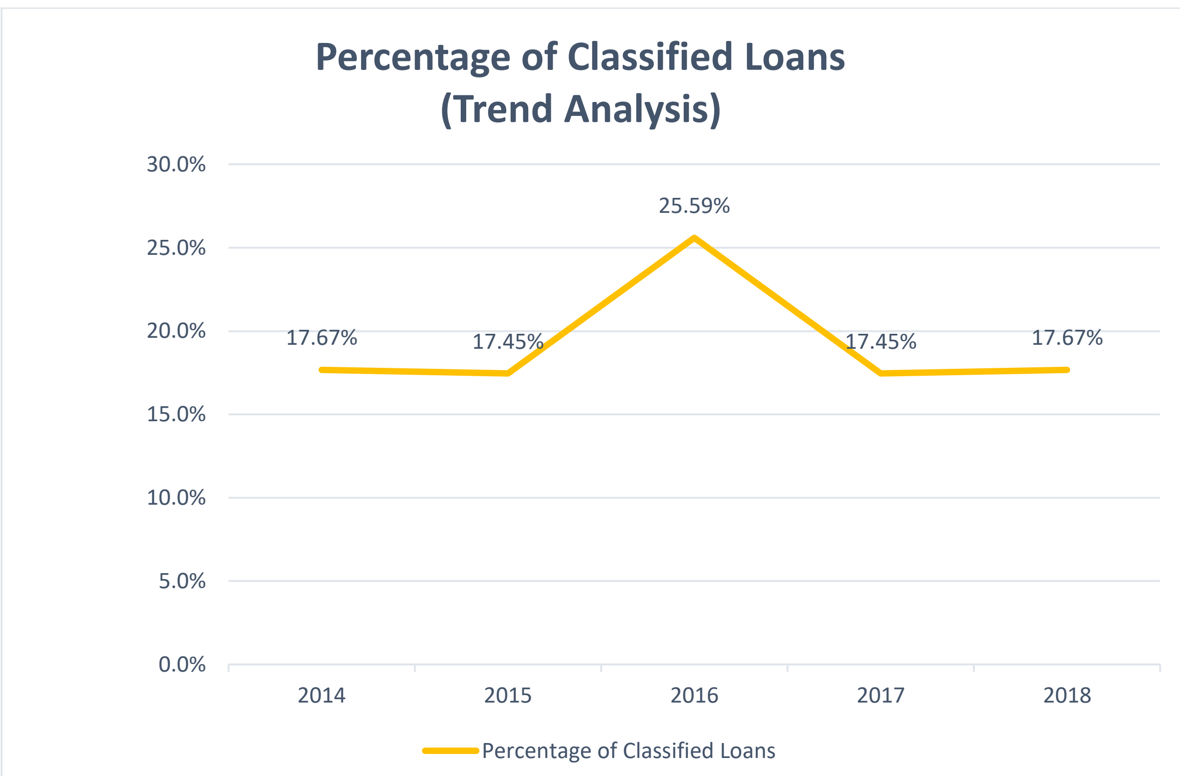


Figure 10 : Percentage of Classified Loans (Trend Analysis)

Trend analysis of percentage of classified loans of ABL shows that they had a satisfactory percentage of classified loan ratio in recent years except 2016. The average of the last five years ratio is 19.17% which indicates ABL has been efficient in taking back their loan.

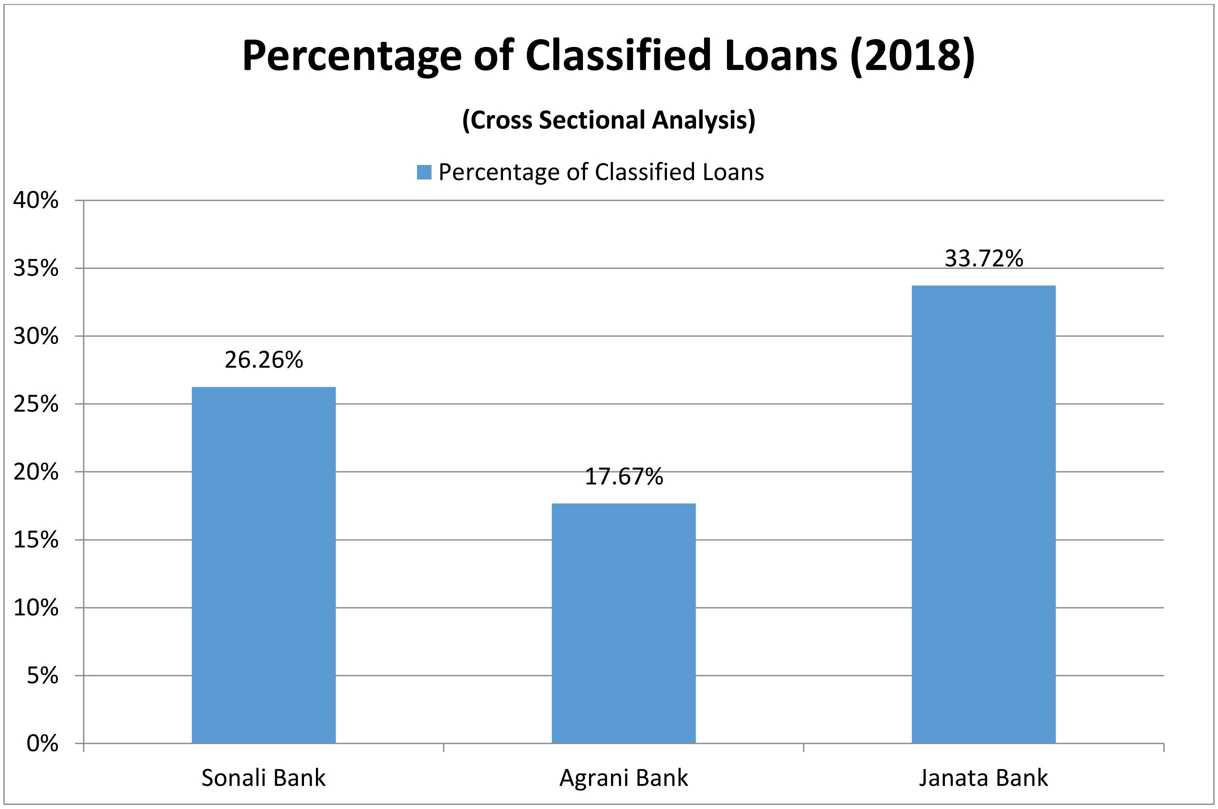


Figure 11 : Percentage of classified loans (Comparative Analysis)

Cross sectional analysis also indicates that ABL has been better at managing their loans than their competitors as they have the lowest percentage of classified loans ratio.

5.3 Management Efficiency:

One of the most significant factors behind the performance of a bank is whether they have a sound management. Net profit per employee and net expenses per employee is examined in order to measure the efficiency of management of a bank.

5.3.1 Net Profit per Employee:

Net profit per employee is the measure of how much profit a company is making comparing to their number of employees. The ratio measures a bank's ability to exploit their workforce in order to make more profits. The higher the ratio is, the better a company is managing their workforce.

Net Profit per Employee= Net profit after tax/ Total number of employees

Ratio	2014	2015	2016	2017	2018	Mean
Profit Per Employee	148,532	48,521	(533,459)	528,207	82,174	54,795

Table 7 : Net profit per employee

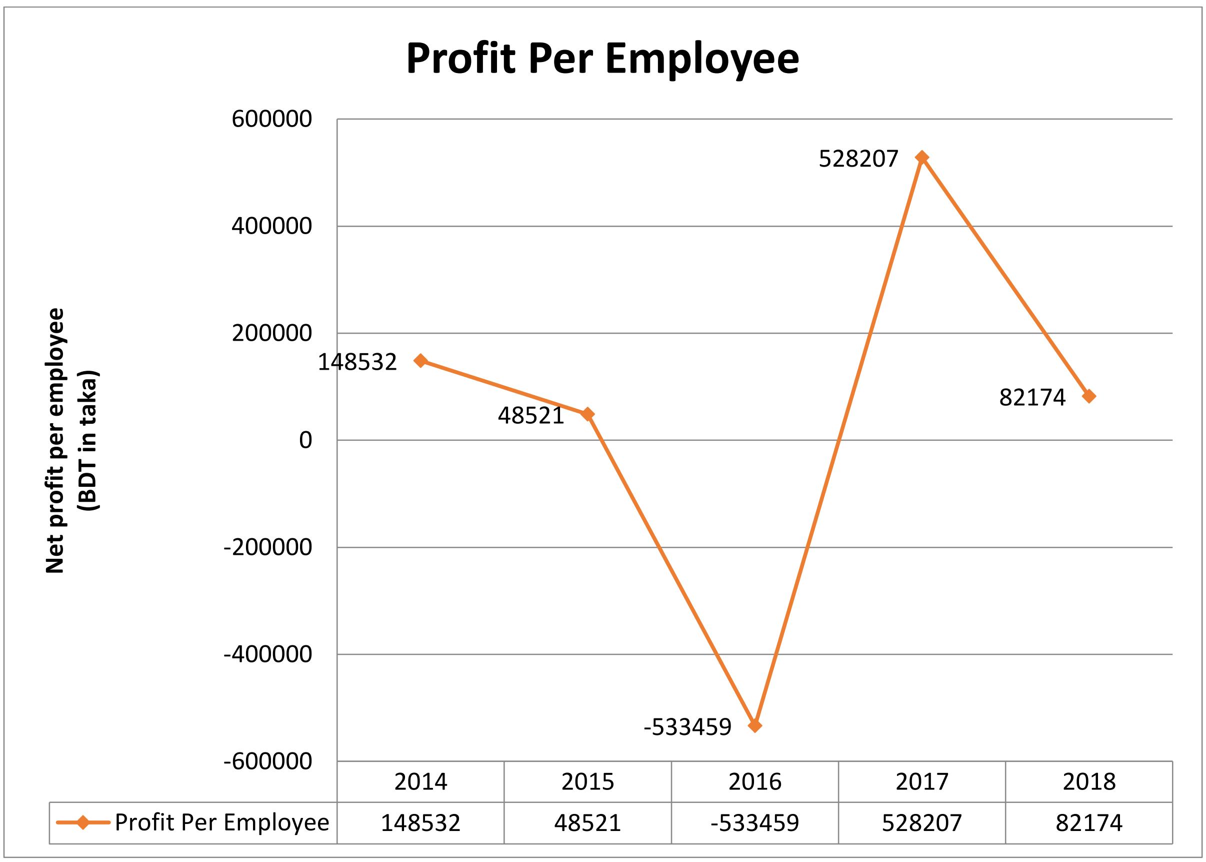


Figure 12 : Net profit per employee (Trend Analysis)

The trend analysis shows that profit per employee of ABL is not satisfactory. The average profit per employee in the last five years in only 54,795 taka. Furthermore, in 2016 they made a loss of 533,459 taka due to having a huge loss in that fiscal year. But, they recovered well in the next two years. The net profit per employee in 2018 was 82,174 taka.

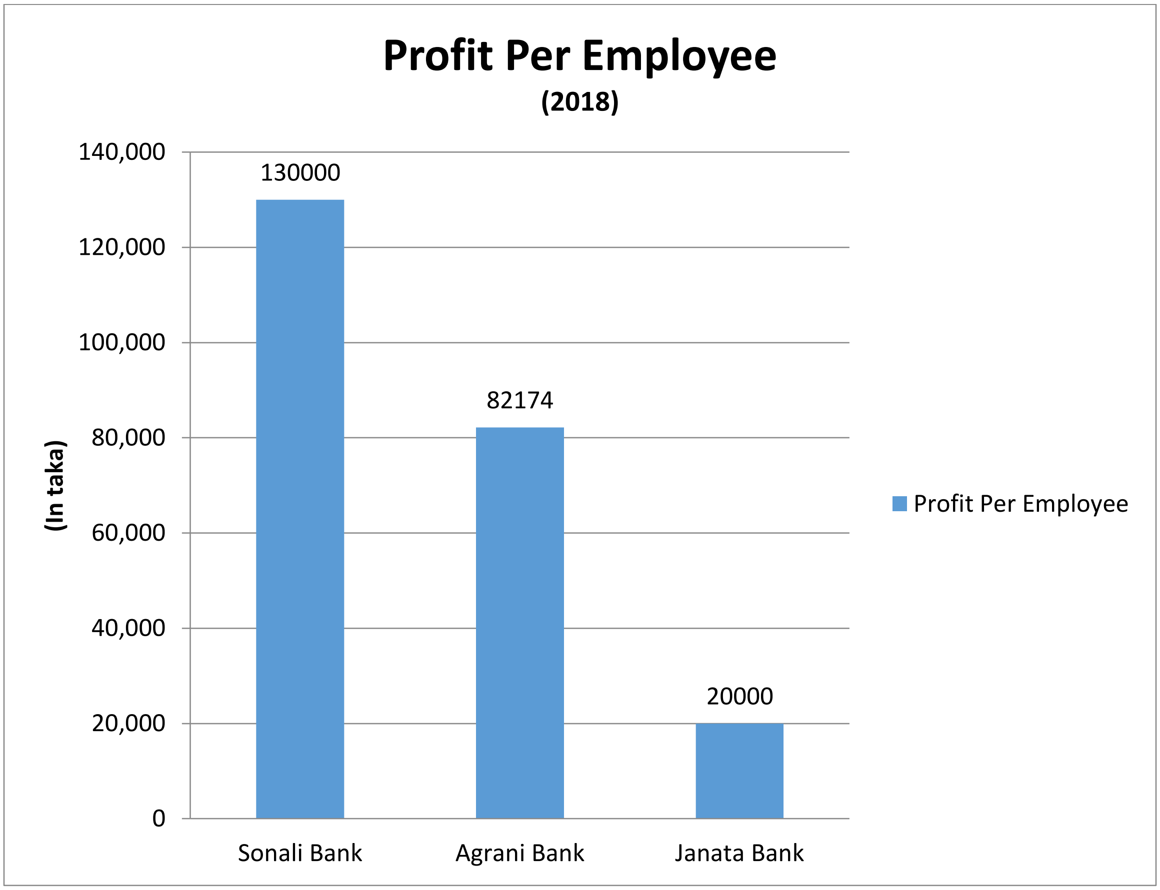


Figure 13 : Net profit per employee (Cross Sectional Analysis)

Cross sectional analysis of 2018 shows that Janata Bank has the lowest net profit per employee and Sonali Bank has the highest net profit per employee. ABL needs to focus on increasing their income in the coming years.

5.3.2 Expenses per Employee:

Expenses per employee shows how much money a bank is spending in relation to their employees. It also indicates whether a bank is managing their costs efficiently or not.

Expenses per Employee= Total expenses/ Number of employee

Ratio	2014	2015	2016	2017	2018	Mean
Expenses Per Employee (In Lakh)	6.53	8.32	12.03	12.03	13.04	10.39

Table 8 : Expenses per employee

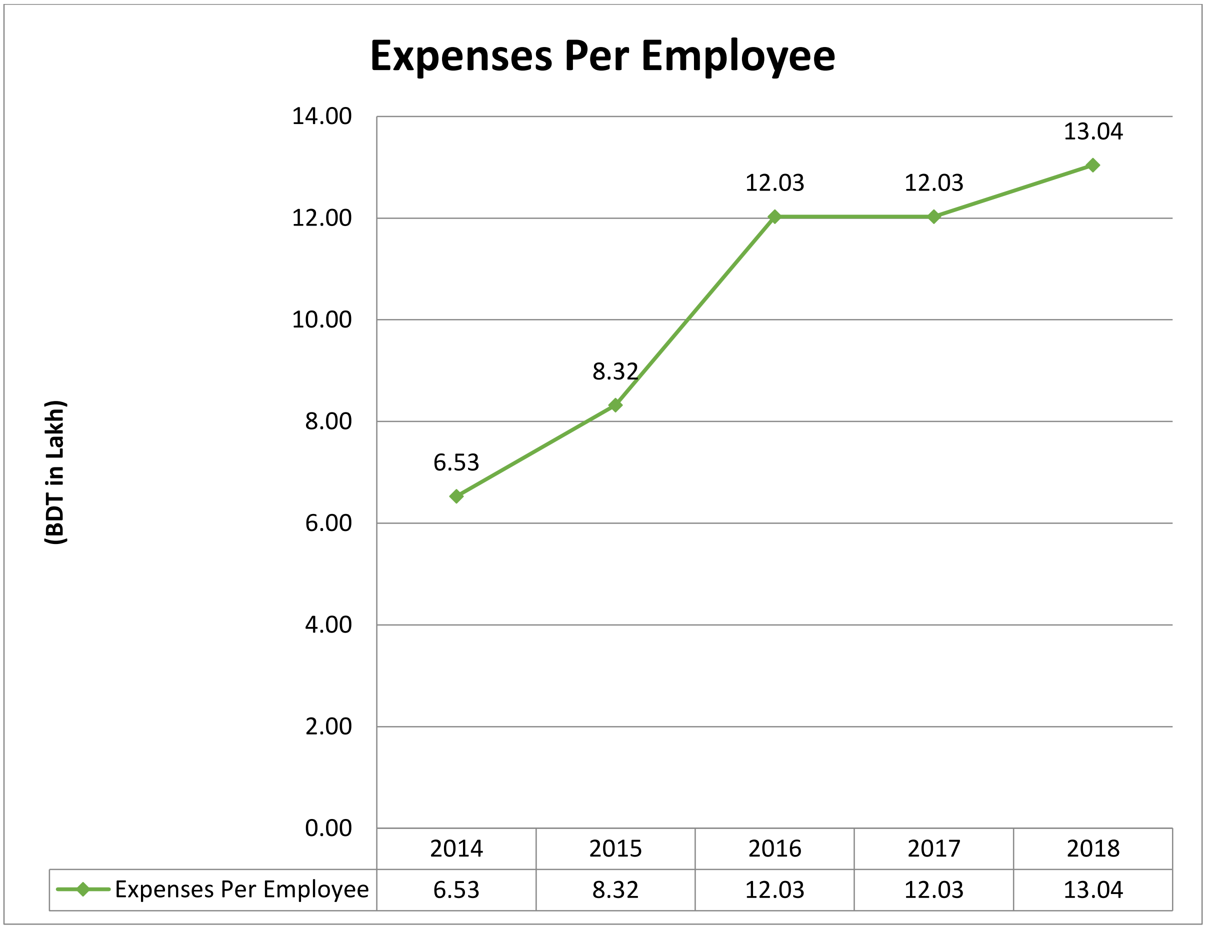


Figure 14 : Expenses per employee (Trend Analysis)

The trend analysis shows that in 2016 the expenses per employee increased significantly. The expense increased in each year which is not satisfactory.

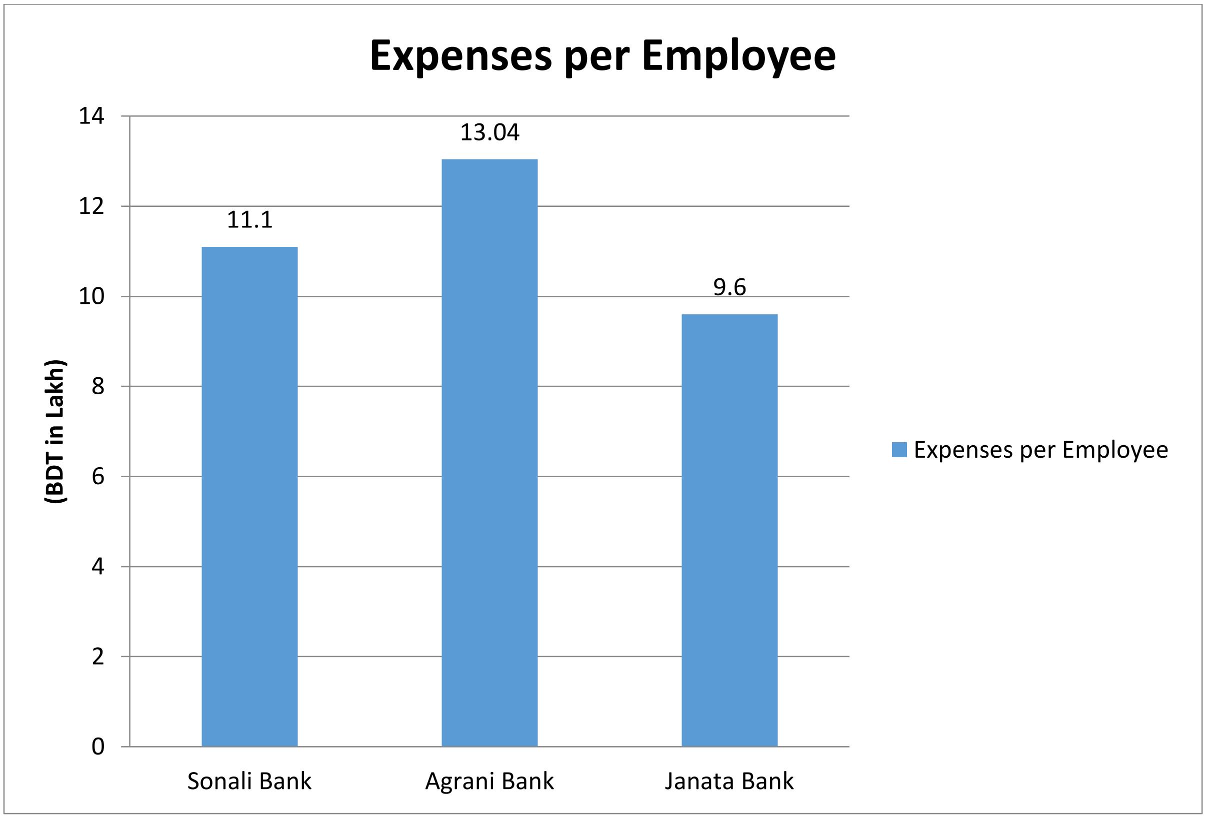


Figure 15 : Expenses per Employee (Comparative Analysis)

Cross sectional analysis also indicates that net expenses per employee of ABL is not satisfactory as they have highest ratio among the three banks we compared.

5.4 Earnings Ability:

Earnings ability expresses the capacity of a bank to generate income. Earnings ability is the most significant parameter which measures the quality of profitability of a bank. Usually it uses the earnings per share and return on equity ratio to check a bank's quality of profitability.

5.4.1 Earnings per share (EPS):

Earnings per share signifies a company's profit against its number of common shares outstanding. This ratio is widely used to evaluate a company's performance. Higher EPS is better because it indicates the company is more capable of generating income for their shareholders.

Earnings per share= Net profit after tax/ total number of common shares outstanding

Ratio	2014	2015	2016	2017	2018	Mean
Earnings Per Share	9.58	3.15	(33.63)	32.62	5	3.344

Table 9 : Earnings per share

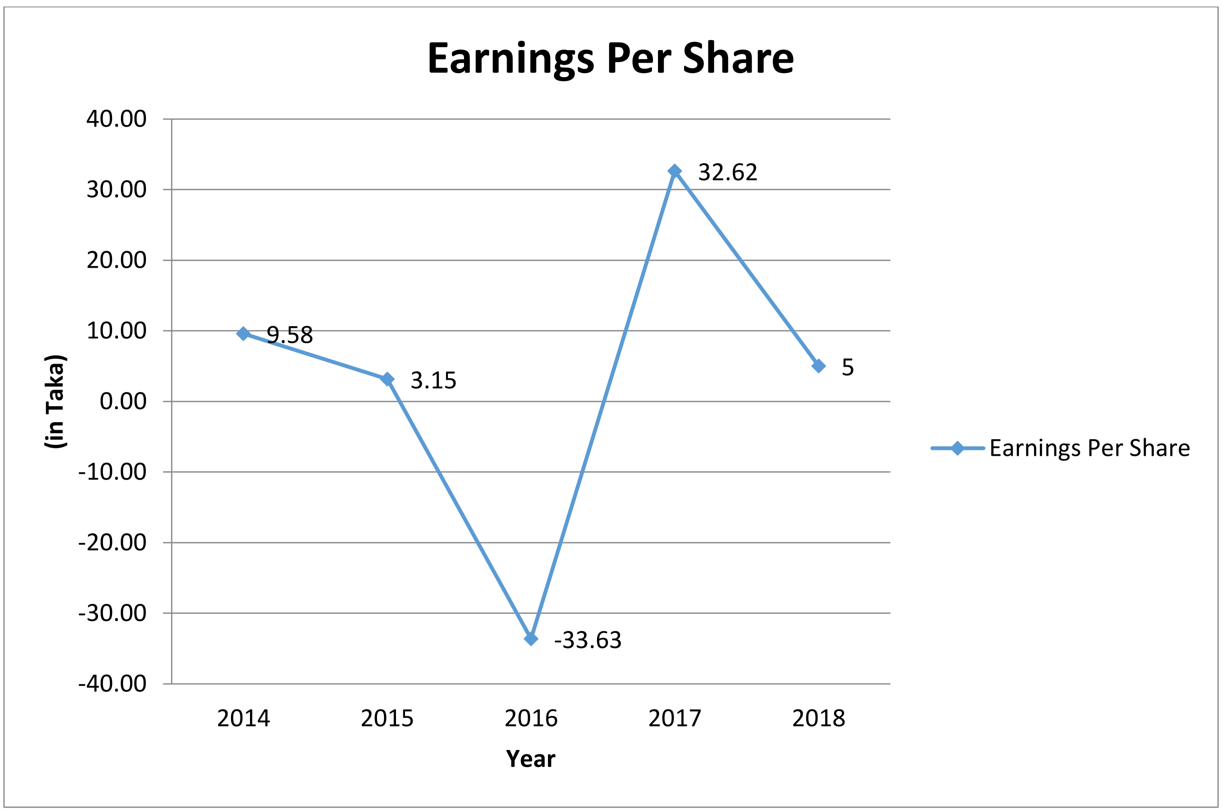


Figure 16 : Earnings per share (Trend Analysis)

In the year 2016, the shareholders of ABL made a loss of 33 tk which is not good at all for the reputation of a company. Though in next year, they had an EPS of 32 tk but again in 2018 the EPS fell down to 5 tk only which indicates that the EPS of ABL is not satisfactory.

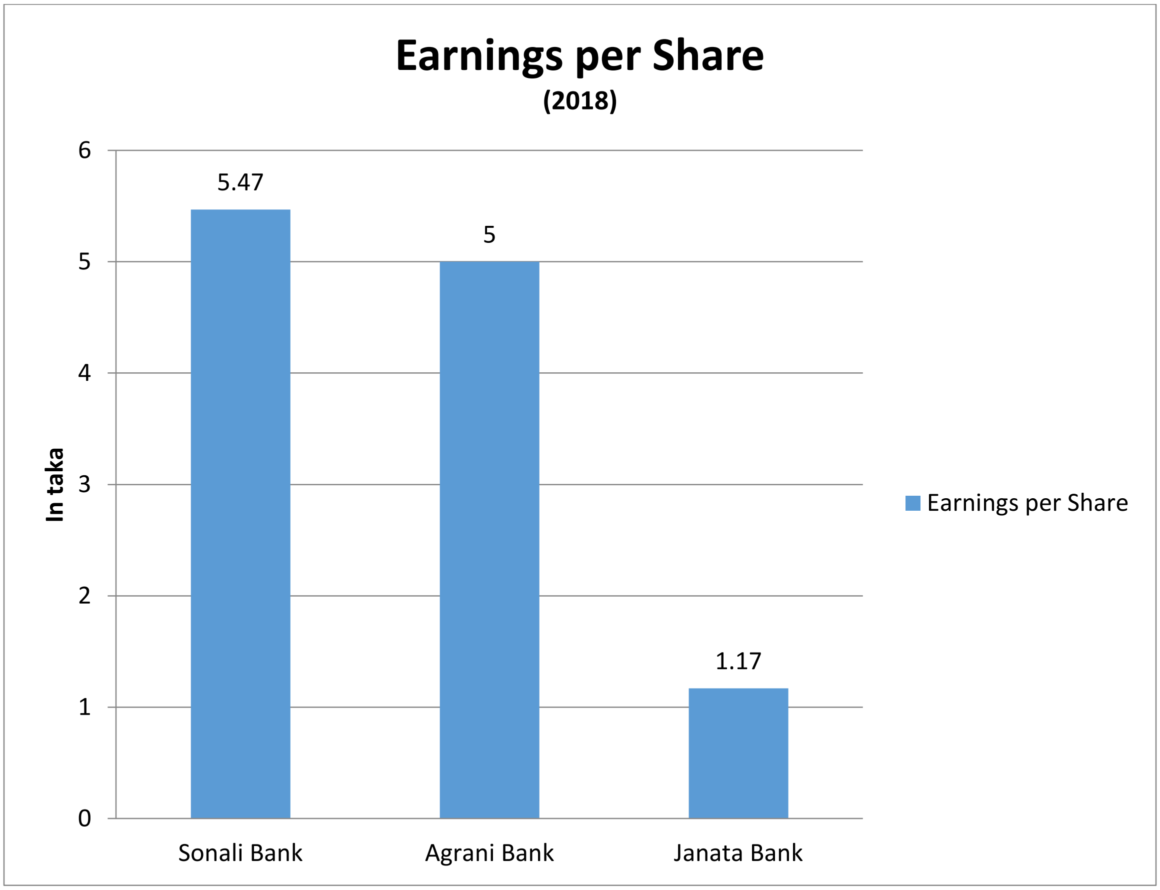


Figure 17 : Earnings per Share (Cross Sectional Analysis)

Cross sectional analysis shows that all the banks had a low EPS in the year of 2018.

5.4.2 Return on Equity:

Return on equity measures how much profit a company can make comparing to its shareholders equity. This ratio reveals how much money a company is making from the money they have taken from their shareholders.

Return on Equity= Net profit after tax/Total Shareholder's equity

Ratio	2014	2015	2016	2017	2018	Mean
Return on Equity (ROE)	5.02%	1.46%	(19.06)%	17.45%	2.49%	1.3%

Table 10 : Return on Equity

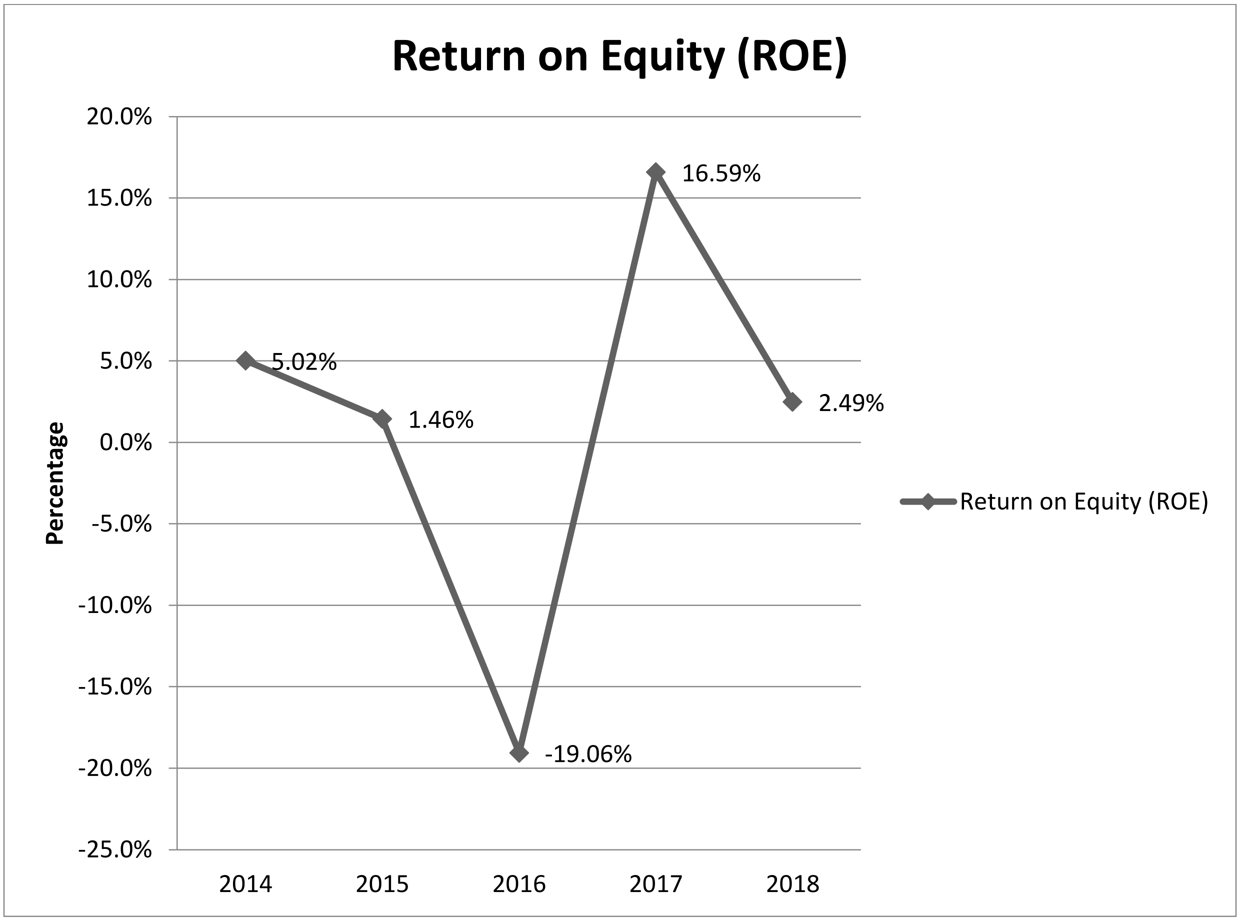


Figure 18 : Return on Equity (Trend Analysis)

The average ROE of ABL from the year 2014 to 2018 was only 1.3% which is not much. Furthermore, in 2016 ABL made a loss with the money they had taken from their shareholders. Though in 2017 the ROE increased, but then again in 2018 it fell down. This indicates that the earnings ability of ABL is not strong enough.

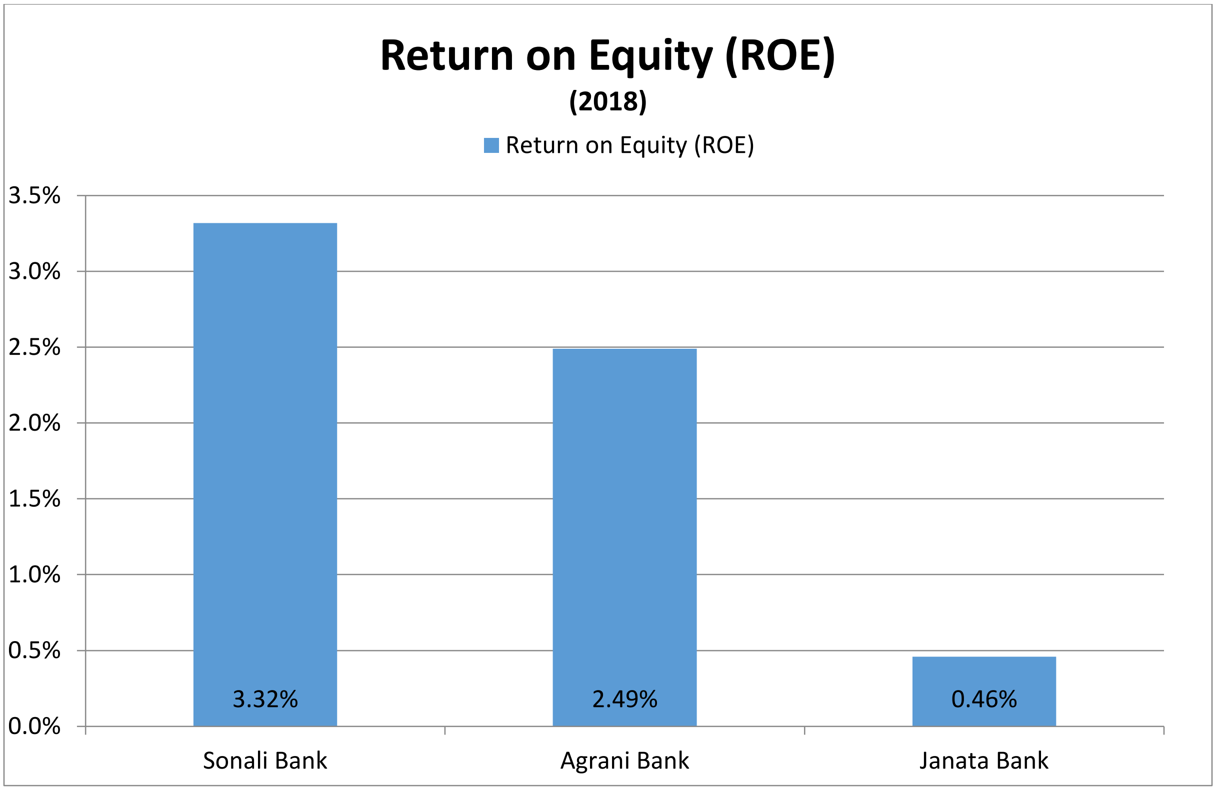


Figure 19 : Return on Equity (Comparative Analysis)

Cross sectional analysis indicates that ROE of all the banks we compared was low in 2018. The ROE as well as the earnings ability of ABL is not satisfactory.

5.5 Liquidity:

Liquidity ratios measures the capability of a bank to fulfil the immediate financial demand of their customers. The ratios indicate the operating ability of a bank during a financial crisis and the ability of a bank to meet its short term obligations without taking any help from outside. Having a strong liquidity position helps a bank to avoid risk and it indicates that the company can convert their assets into cash quickly and at a reasonable cost. Usually loans to deposit ratio and earning asset to deposit ratio is examined to measure the liquidity position of a bank.

5.5.1 Loans to Deposit Ratio:

Loans to deposit ratio signifies a bank's liquidity position. It compares the loans with deposits and by doing so it measures the ability of a bank to pay its customers. The higher the ratio is the more a bank is capable of meeting its short term obligations.

Loan to Deposit Ratio= Total loans/ Total deposits

Ratio	2014	2015	2016	2017	2018	Mean
Loan to Deposit Ratio	61.23%	55.64%	53.81%	60.17%	63.63%	58.9%

Table 11: Loan to Deposit Ratio

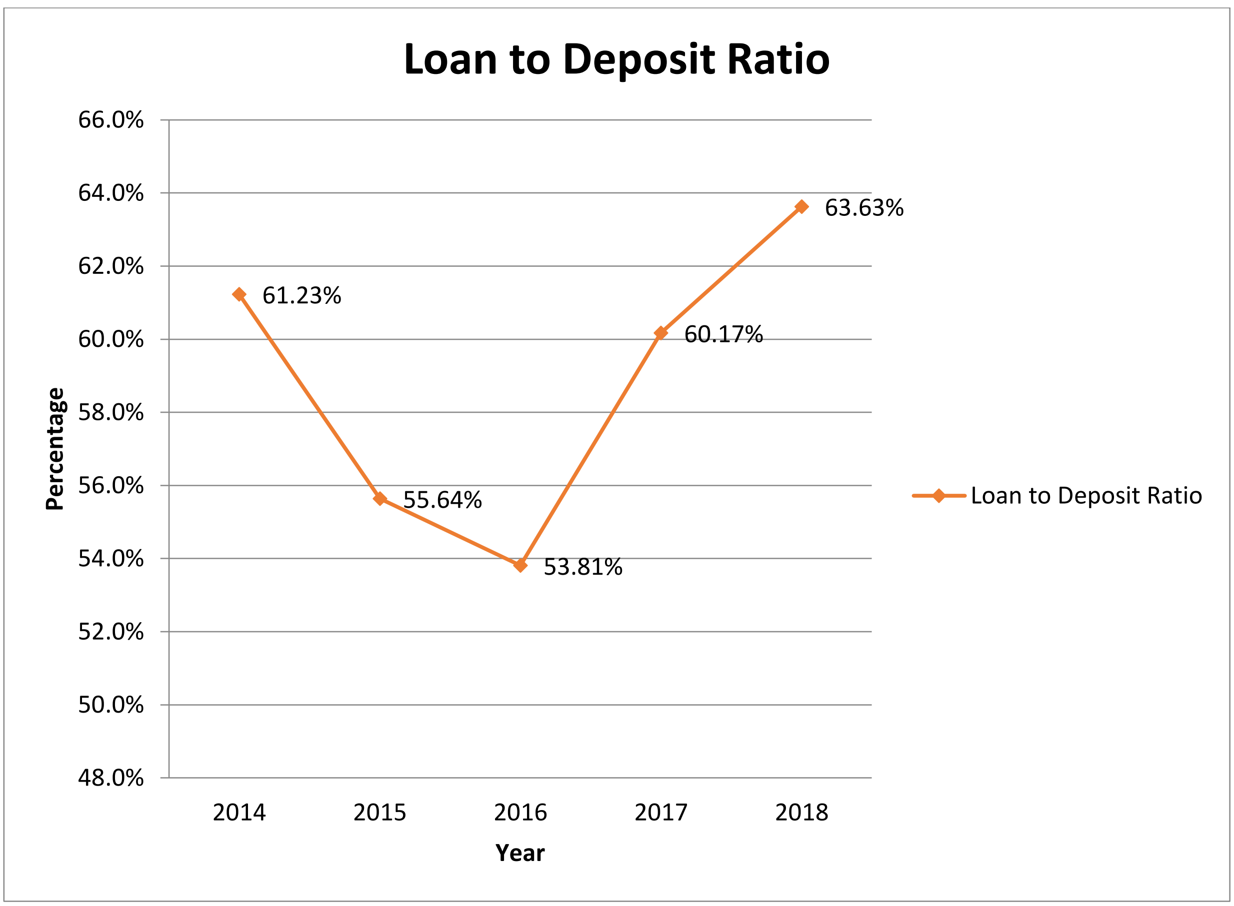


Figure 20 : Loan to Deposit Ratio (Trend Analysis)

The average loan to deposit ratio of ABL from the year 2014 to 2018 58.9% which is below standard. In the year 2016 it reached its lowest point but in the next two consecutive years the ratio increased which is good sign. ABL has to focus on increasing their loans to deposit ratio in order to achieve a stronger liquidity position.

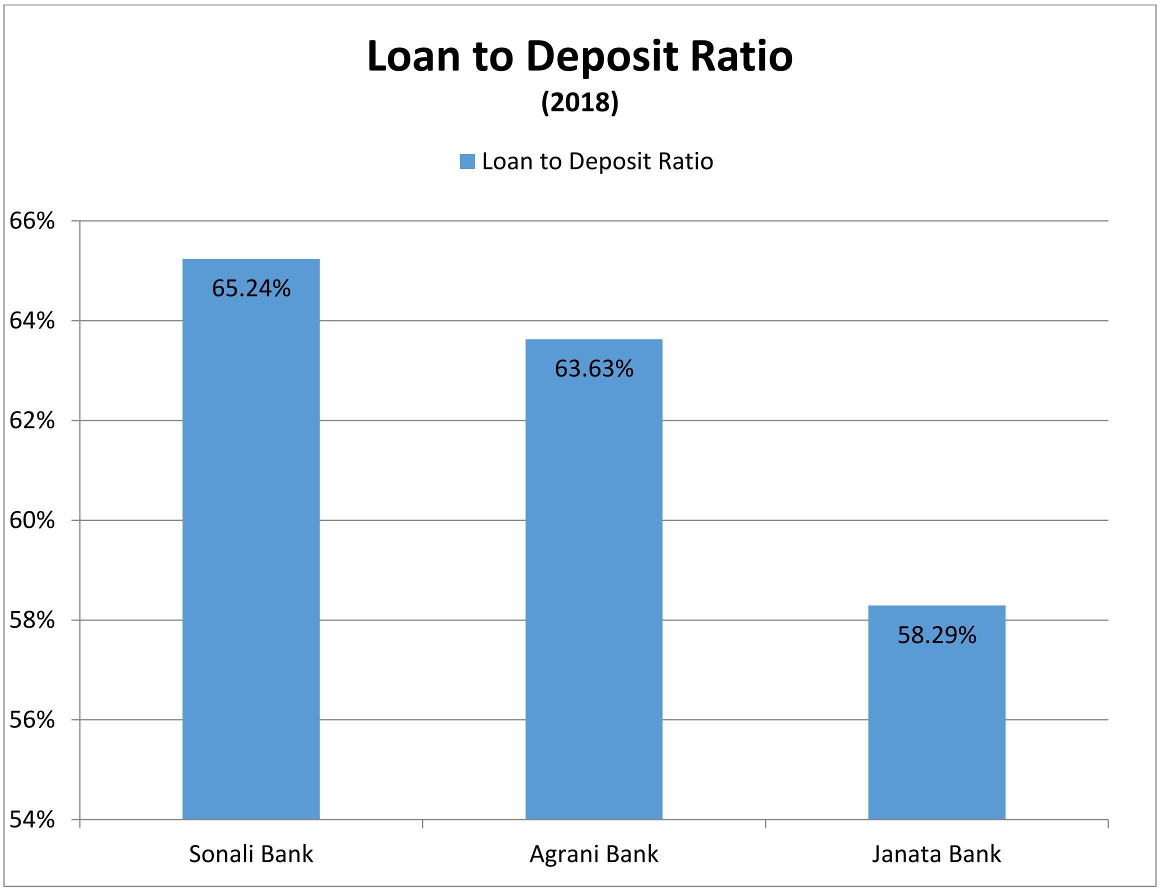


Figure 21 : Loan to Deposit Ratio (Comparative Analysis)

Cross sectional analysis reveals that none of the bank has below standard loan to deposit ratio. Thus, none of the bank has a strong liquidity position in the market.

5.5.2 Earning Asset to Deposit Ratio:

Earning asset to deposit ratio measures the ability of a bank to pay their customers. This ratio takes into account both the interest earning asset and non-interest earning asset and compare them to total deposit to measure the liquidity position of a bank. Higher ratio is better.

Earning Assets to Deposit Ratio= Total earning asset/ Total deposit

Ratio	2014	2015	2016	2017	2018	Mean
Earning Asset to Deposit	1.29	1.28	1.26	1.27	1.26	1.27

Table 11 : Earning Asset to Deposit Ratio

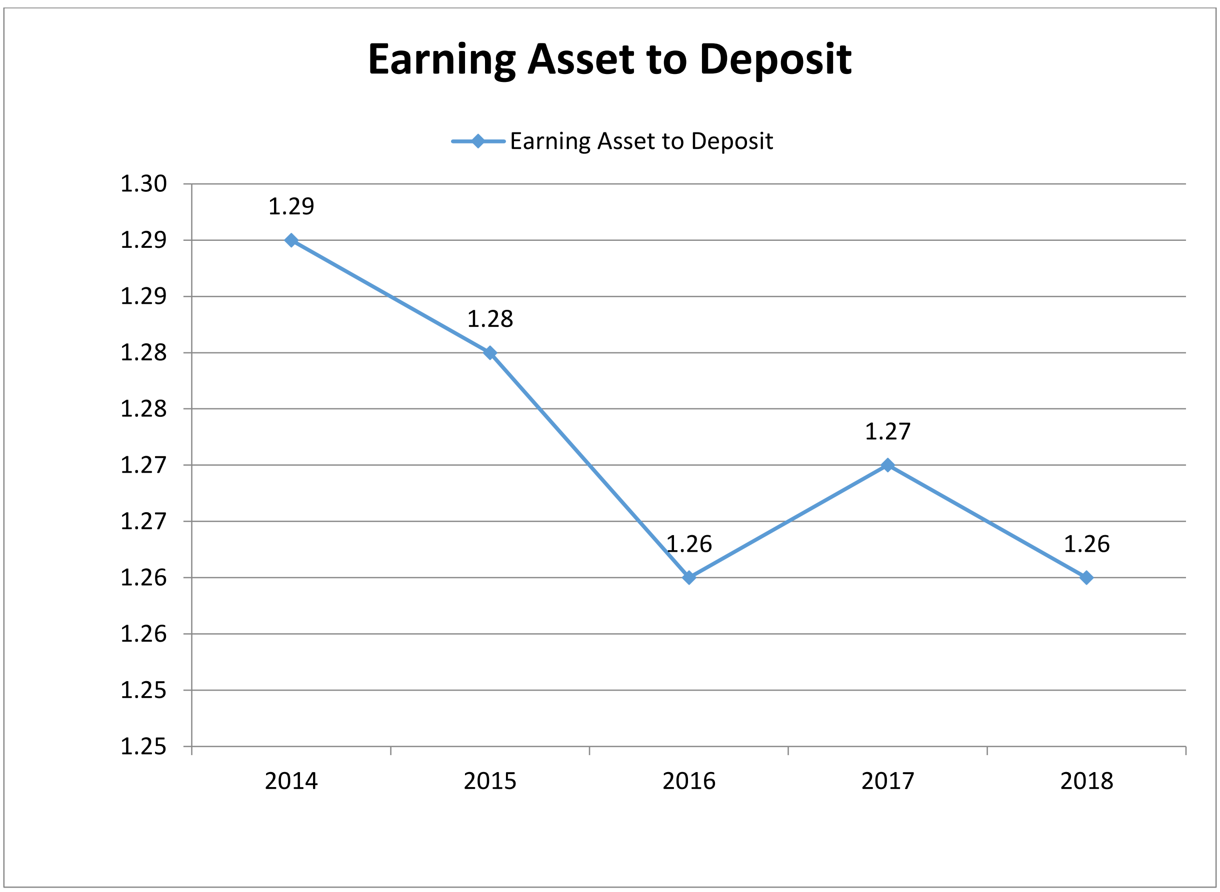


Figure 22 : Earning Asset to Deposit Ratio (Trend Analysis)

The average earning asset to deposit ratio of ABL from the year 2014 to 2018 is 1.27 which means ABL can pay their depositors 1.27 times with their earning assets. The ratio has decreased in the last five years which implies the liquidity position of ABL is not strong.

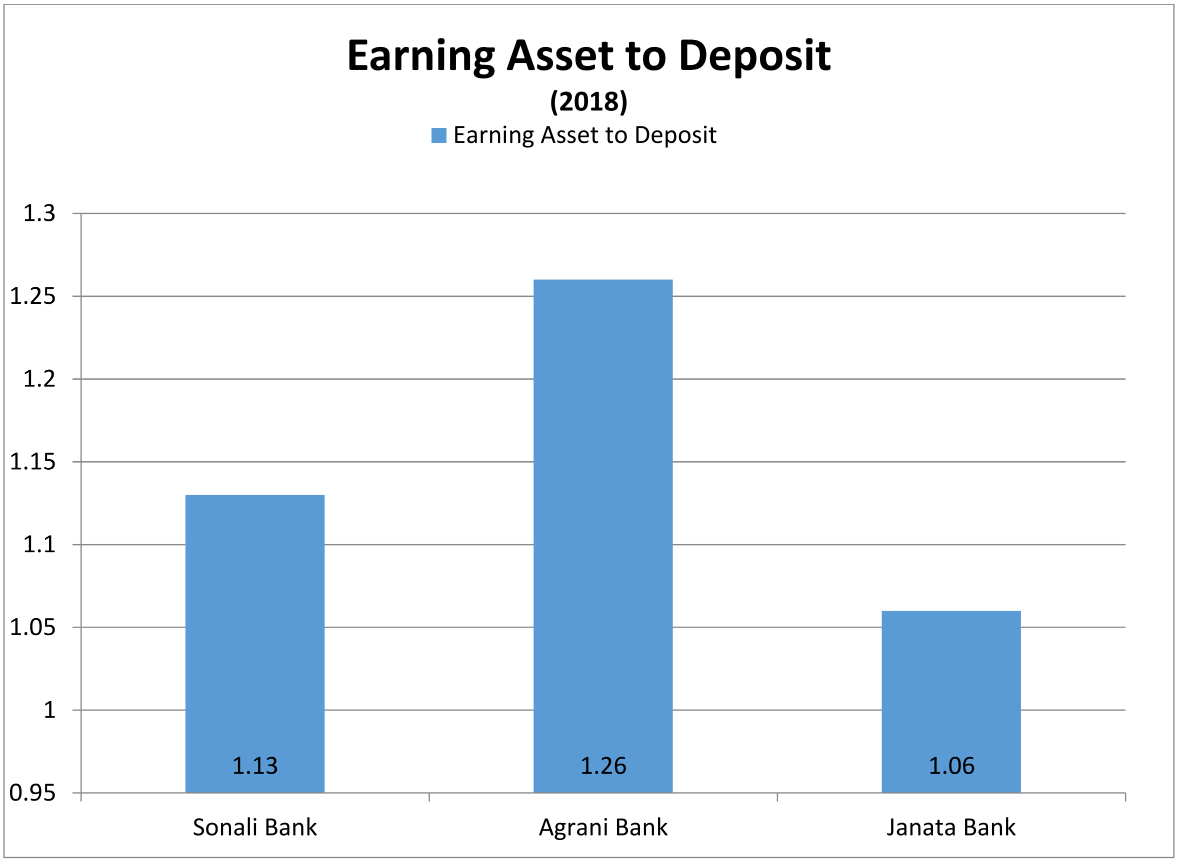


Figure 23 : Earning Asset to deposit Ratio (Cross Sectional Analysis)

Cross sectional analysis reveals that ABL has the best earning asset to deposit ratio. However, each of the bank has a low earning asset to deposit ratio which implies that none of the bank has a strong liquidity position.

5.6 Sensitivity to Market Risk:

When doing the analysis, we have already seen that the earning ability of ABL is not satisfactory. Earnings per share and return on equity has been really low over the years. Furthermore, their liquidity position is not strong as well. Their loan to deposit ratio is really low. Though they have some profitable earning asset but that's not good enough. As the earnings ability of ABL is not satisfactory and the liquidity position of them is not strong enough, they are sensitive to market risk. ABL was most sensitive to market risk in the year 2016 because in that year they made a huge loss and their liquidity position was not strong enough. If any financial crisis had occurred in 2016, ABL might not have been able to tackle that crisis without the external help. Though ABL improved their earnings ability and liquidity position in the next two years, but still they are sensitive to market risk. ABL has to focus on improving their earnings ability and liquidity position in order to avoid the market risk.

5.7 SME Sector of Agrani Bank Limited:

In the recent years Agrani Bank has been investing more and more on SME divisions as this division is comparatively better for making investments from other divisions. Among the 5 subsidiaries, ABL has one separate subsidiary for SME known as Agrani SME Financing Company Limited which has 52 branches in Bangladesh. ABL is focusing more on investing in small medium sized enterprises. In the year 2018 alone, ABL distributed 4,303 crores taka in the SME sector to 39,615 different sources though the target was 3,500 crore taka which was the highest among all the state owned commercial bank. Agrani Bank has given importance to SME sector since their inception. As they grew bigger, they have given more emphasis on SME sector. We can see that pattern in the loan disbursement history of the past 5 years.

Year	2014	2015	2016	2017	2018
Loan Disbursed Amount (BDT in Crore)	**1956.60**	**2191.00**	**2620.49**	**3298.19**	**4302.74**

Table 12 : ABL SME Loan Disbursements

We can clearly notice that in the last 5 years ABL has invested remarkable amount of money in the SME sector and their investment had increased each and every year. Investment policy of ABL has made this possible.

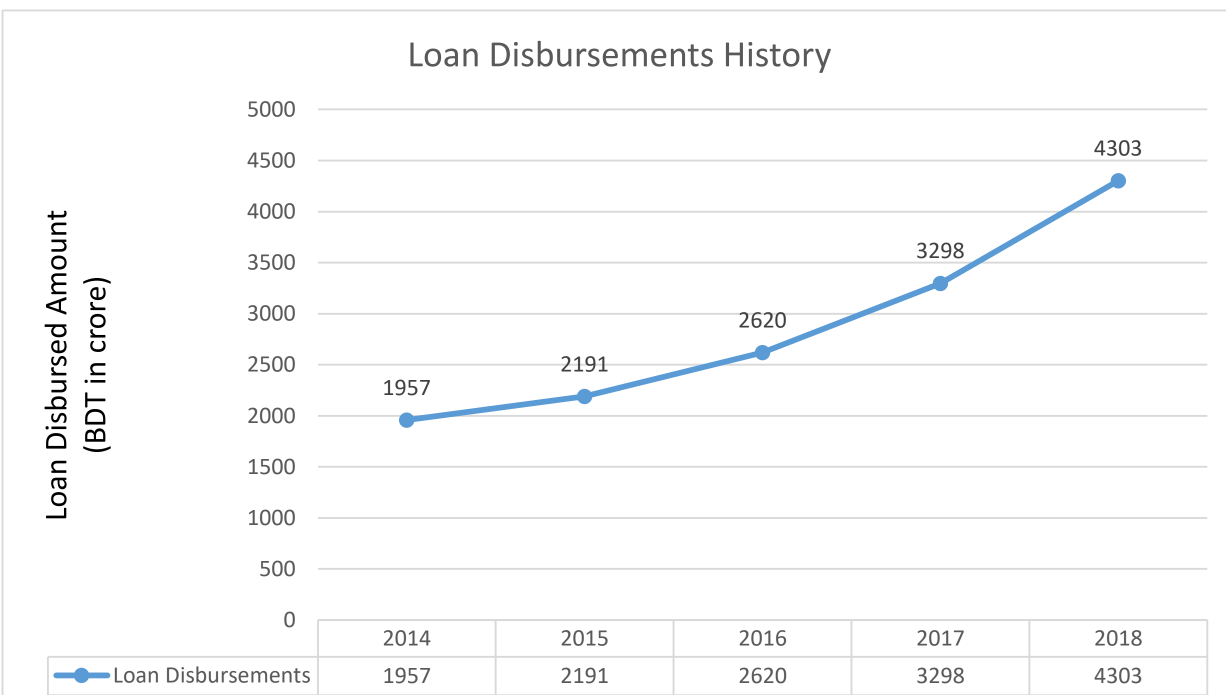


Figure 24 : SME Loan Disbursements

5.8 Sectors of SME financing in ABL:

For a developing country like Bangladesh, it is very important to make sure that people are getting enough loan opportunities to start small and medium enterprises. SME is regarded as the profit generating machine and the driving force of industrialization. Countries like Japan, China, Malaysia, Hong Kong and India have uplifted their economy through the advancement of SME. So, Bangladesh government has given more priority for the progression of SME. As a result, Bangladesh Bank has given more emphasis on SME sector and as a partner ABL is also giving more importance to the SME investments by offering loans at different sector to their customers. Loan disbursements at different sector in the year 2018 is given below:

Sectors of SME Financing	Disbursed amount (BDT in core)
Service Sectors	55.07
Business Sectors	3135.68
Industrial Sectors	1111.99
Total	**4302.74**

Table 13 : SME Loan Disbursement in Different Sectors (2018)

In order to invest more ABL has given a lot of options to their customers.

Service Sectors: This sector includes hospitals, clinic, hotels, restaurants, kindergarten, schools, tailoring, laundry, irrigation equipment etc.

Business Sectors: Medicine shop, grocery shop, furniture, rod & cement, spare parts shop and other profit generating and legal businesses.

Industrial Sectors: Jute mills, cotton mills, garments, saw mill, plastic industry and other income generating, eco-friendly and socially acceptable businesses.

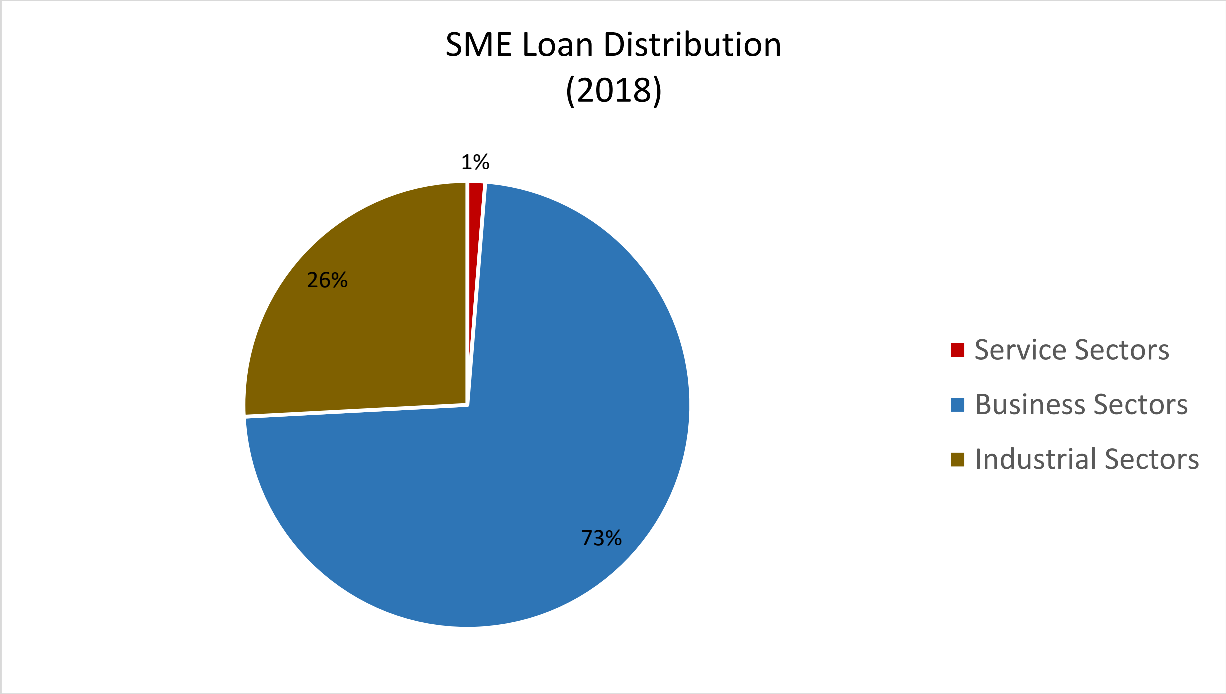


Figure 25 : SME Loan Distribution

We can see from the chart that 73% of the SME loans are given to the business sectors as it had proven to be the most profitable sector in the past, non-performing loan is the lowest here and it is comparatively easier to recover loans in this sector.

5.9 SME Portfolio Composition:

In order to serve a wider variety of customers, ABL provides different offers to different enterprises. ABL provides loans to cottage enterprises, micro enterprises, small enterprises and medium enterprises. Disbursement target and actual disbursements in different enterprises in the year 2018 is given below:

Nature of Loan	**Disbursement Target** (BDT in crore)	**Actual Disbursement** (BDT in crore)	**% of Disbursement**
Cottage enterprises	12.00	0.18	1.50%
Micro enterprises	112.80	228.82	202.85%
Small Enterprises	2814.90	3170.42	112.63%
Medium Enterprises	939.66	903.32	96.13%
Total	**3879.36**	**4302.74**	**110.91%**

Table 14 : SME Portfolio Composition (2018)

From the table, we can observe that in the cottage enterprises only 1.5% of the target were disbursed. It implies that they are not being able to reach their customers. Furthermore, actual disbursement was more than double from the disbursement target. It implies that they could not forecast their demand efficiently.

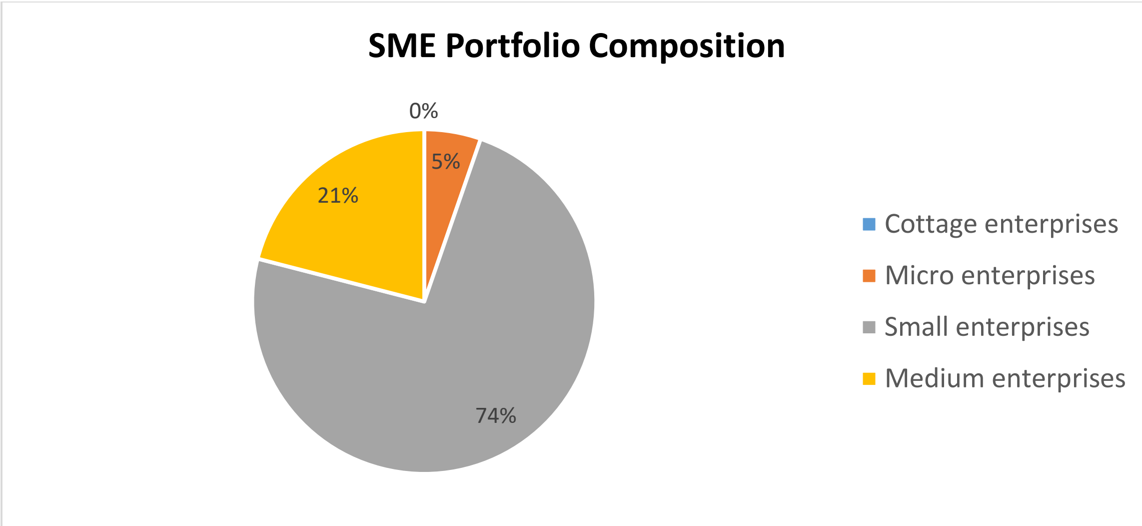
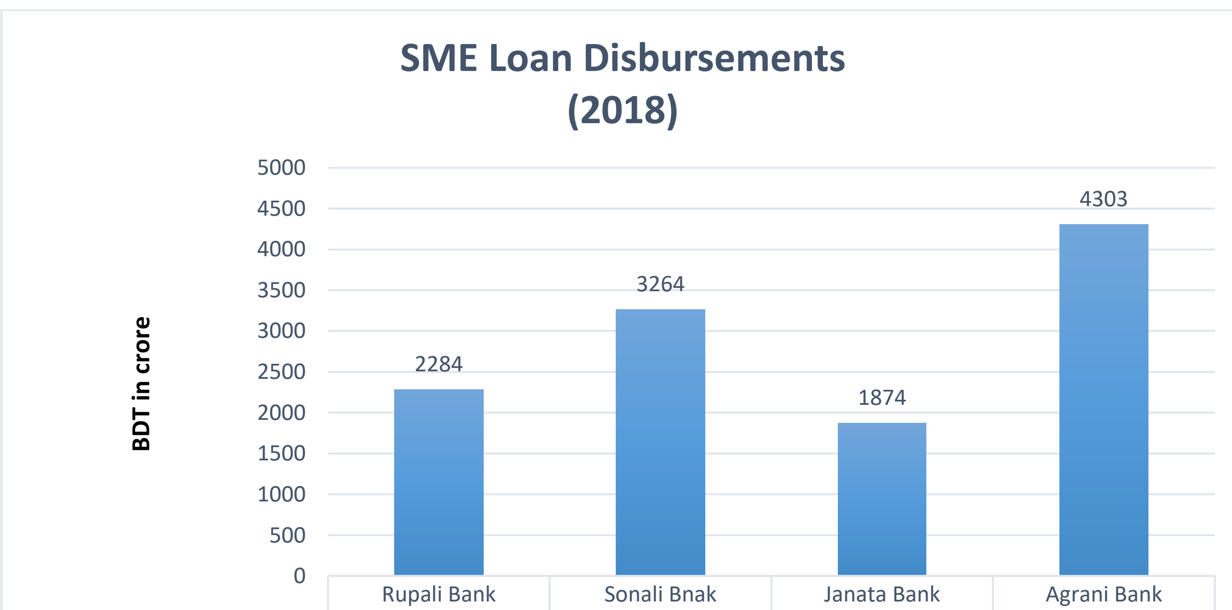


Figure 26 : SME portfolio composition

As small enterprises are the most reliable sector to invest on among all the sectors, ABL has invested most of their money here.

5.10 Cross Sectional Analysis of SME Loan Disbursements:



	Rupali Bank	Sonali Bnak	Janata Bank	Agrani Bank
SME Loan Disbursements	2284	3264	1874	4303

Figure 27 : SME Loan disbursements (Comparative Analysis)

The bar chart above shows that Agrani Bank has the highest investments in SME sector from all their competitors in the year 2018. So, ABL has contributed more to the development of SME in Bangladesh from their competitors.

5.11 Investment Comparison:

In order to compare the SME investments with other investments, we will compare the profit percentage of both the investments.

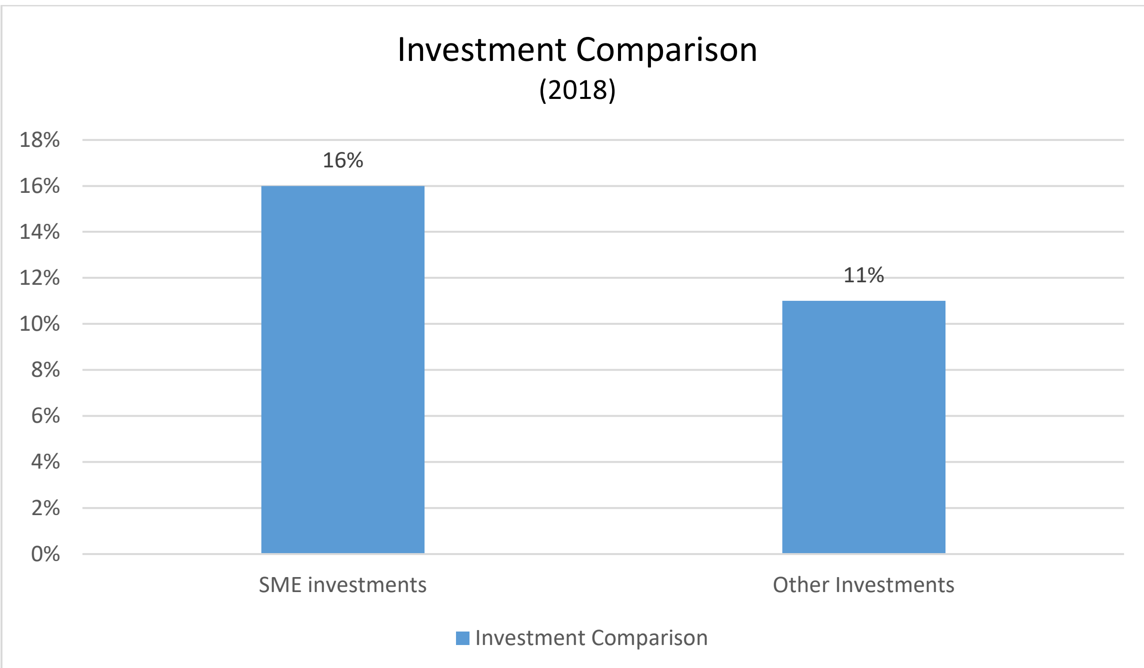


Figure 28 : Investment Comparison

SME gives higher interest rate than other investments as they have more risks. But, for ABL, in recent times, SME investments has given much more benefit than other investments. The earnings ability and liquidity position of ABL is not strong enough. ABL can change their position by investing more in SME.

Chapter 6: Conclusion, Recommendation & Limitation

6.1 Conclusion:

To conclude, I want to state that liquidity management has a direct impact on the profitability of ABL. If we notice closely, we can see that in 2014 & 2015 when ABL was earning healthy profit, they had good liquidity ratios as well, but in 2016, when ABL faced a huge loss the loan to deposit ratio was the lowest among five years. Again, in 2017, when the liquidity ratios got better, the EPS and ROE increased as well. This shows the effect of liquidity management on the profitability of ABL.

The performance of Agrani Bank is not satisfactory. They could not make adequate profit in recent years. Agrani Bank should focus more on managing their liquidity efficiently as it will lead to more profitability and invest more in SME.

6.2 Recommendations

Based on the overall report analysis and received responses, some recommendations are suggested below:

1. It was seen in the analysis that ABL had a very low EPS and ROE and in the year 2016, they faced a huge loss. ABL needs to improve its earnings ability in order to retain their reputation. Attracting new customers and selling more products would be the key to this. For attracting new customers, they can focus on the people who are about to be adult and who will open their first account in a bank. This age group represents a significant portion of the population of Bangladesh; ABL can provide special & attractive offers for

this age group in order to increase their customers. In order to sell more products, they can use different upselling and cross-selling techniques to the existing customers such as premium membership offers or providing extra benefits for taking more loans.

2. The capital adequacy of Agrani Bank has not been satisfactory and in the year 2015, their CAR ratio even dropped below the standard set by Bangladesh Bank. ABL has to increase their capital in order to retain their customers. They can increase their debt capital by issuing bonds and equity capital by additional stocks to the market.
3. When doing the analysis on liquidity, it was observed that the loan to deposit ratio has been low in recent years; it implies that ABL is not using their funds efficiently and they could earn more money if they wanted to. In order to get more interests and profits, ABL should revise their investment policies and invest more in loans from their funds.
4. An efficient Management Information System (MIS) is vital for fruitful liquidity management decisions. While doing my intern in Agrani Bank, I have observed at several occasions that the server had gone down in the middle of a working day which made the office stuffs and the customers wait for a long time. This could be really harmful for the reputation of a bank. In order to be more productive, ABL should give more focus on managing their MIS more efficiently.
5. ABL has invested 200% of their disbursement target in micro enterprises in 2018 as the demand for loan in this department was high. But, the rate of NPL is the highest here as well. So, although, ABL invest a lot of money in small enterprises, they should invest more money here rather than investing in micro enterprises as small enterprises is the most profitable sector to invest in.

6.3 Limitations of the report:

Working as an intern in Agrani Bank Limited helped me in various ways for collecting data regarding the report. However, during the collection of data some limitations were faced. Some of them are as follows:

- ✓ **Time:** The duration of the internship was 3 months. During that period most of the time were spent in learning practical things. The report had to be done within a short period of time. Collection of data was not possible was not possible when practical things were learnt, therefore, there was shortage of time.
- ✓ **Confidentiality:** I was fortunate that I was able to collect more than enough and significant data for my report. However, questions were unanswered due to organization’s privacy policy.
- ✓ **Data Availability:** While doing the ratio analysis, some of the data could not be found in the financial report. So, all the ratios were not considered because of insufficient information.

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Appendix

Interview Questions:

1) How often does ABL revise its liquidity management policies?
2) How does ABL control its liquidity management policies?
3) From where the liquidity management policies are controlled and monitored?
4) Is there any system to give early signals of liquidity crisis?
5) How does ABL handle the situation when they are facing a liquidity risk?
6) Did this branch of ABL face any situation when it had to pay its customers who are present in bank but it didn't have any money in hand? How do you face this kind of situation?
7) What could be the effects of liquidity crisis on the profitability of ABL?
8) How does ABL manage its liquidity management policies?
9) How will you rate overall ABL's SME loan disbursement process? (from application received till loan passed)
   a) Lengthy
   b) Moderate
   c) Fast
10) On an average, how many days it takes ABL to process a SME loan request?

11) According to you, what are/is the thing that clients remain bothered about when taking a SME loan? (chose one or multiple)
   a) Interest rate
   b) Loan amount

c) Documentation

d) Time required to process loans

12) Do you have any suggestion for ABL for improving their liquidity management process?