United International University

Internship report on
Ratio Analysis
Of
Prime Bank Limited

Prepared For
Dr. Salma Karim
Professor of Accounting
School of Business & Economics
United International University

Prepared by
Muhammed Faisal Karim
ID: 111-142-307
Program: BBA, Major: Accounting
School of Business & Economics
United International University

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Letter of Transmittal

Date: 16/02/2020

Dr. Salma Karim
Professor of Accounting
School of Business & Economics
United International University

Subject: Submission of internship report on "Ratio Analysis of Prime Bank Limited".

Madam,
I am glad to inform you that I have completed my internship report on **"Ratio Analysis of Prime Bank Limited"** which you have assigned me in order to get a clear understanding about the financial position of Prime Bank Limited. I have tried my level best to gather all kinds of relevant information, which could give overall concept of this report. I hope that it will meet expected standard. I have enjoyed a lot while preparing the report and gained essential knowledge about the subject.

Therefore, I hope that the report would find itself to be satisfactory and appealing in your mind. I strongly feel that I have gained enough experience which helped me to enhance my skills and personality in the professional field. I am grateful to you for guiding and providing me the essential information and suggestions for completing this report. I am submitting this report for your kind attentiveness and thanking you for your continuous help and counseling.

Sincerely yours,

Muhammed Faisal Karim
ID: 111-142-307
School of Business & Economics
United International University

………………….

Supervisor's Certification

This is to certify that the internship report on **"Ratio Analysis of Prime Bank Limited"** is prepared by Muhammed Faisal Karim, ID No.: 111-142-307 as a partial requirement of Bachelor of Business Administration (BBA) degree from the School of Business & Economics, United International University.

The report can be accepted in terms of quality and form as directed by the university authority.

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Dr. Salma Karim
Professor of Accounting
School of Business & Economics
United International University

Acknowledgements

First of all, I would like to take the opportunity to express my heartfelt gratitude to Almighty Allah for giving me the opportunity to complete the report within the designated time.

I am expressing my cordial thanks to our honorable supervisor, **Dr. Salma Karim**, Professor of Accounting, School of Business & Economics, United International University, for assigning me such an interesting topic.

I would also like to thank my respected faculties of the School of Business & Economics, United International University, who provided me with the opportunity to work beside them and guided me to develop my skills in the professional field.

My recognitions are due to a multitude of people who have immensely supported and helped me with this study. Regardless of the fact of having enormous responsibilities, they supported me by providing their valuable time and adequate information.

I would like to thank my classmates and fellow students for cooperating and supporting me.

I would also, lastly but above all, like to thank all the faculties of United International University, who helped and supported me through their bunch of information and experience.

Abstract

This report is prepared based on financial performance analysis of Prime Bank Limited. The main objective of the report is to analyze and discuss the financial performance analysis of Prime Bank Limited. To calculate different types of ratios of Prime Bank Limited, to identify the areas of concern and to make some recommendations the basis of findings are also the objectives of this report. The report is analytical in nature which briefly reveals the analysis of the financial performance of Prime Bank Limited. Annual reports of Prime Bank Limited were the major secondary data sources in this aspect. This study has been conducted by collecting data for the period of last five years (2014-2018). Prime Bank Limited is setting new level in the field in the time of unstable economic conditions.

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1. Introduction

Ratio Analysis is one of the most important tools in accounting which help firms to identify their strengths and weaknesses. It is as old as accounting concept and easy to understand and calculate. It generally helps the stakeholders to make future decisions. The importance and purpose of ratio analysis is to analyze or evaluate the financial performance of the firm in terms of profitability, risk, efficiency and solvency. They can determine the operating performance and analyze their company growth. It also helps firms in identifying their financial risks. The firms can understand how much it is depending on external capital and whether they are capable to pay back the debt using their own capital with the help of these financial ratios like debt service coverage ratio (DSCR), leverage ratio , interest coverage ratio etc. It helps firms and their stakeholders to compare the ratio of their company with another over a period of time. The ratios can also be compared to the firm's previous ratio which helps to analyze whether they made any progress over the past few years. The use of ratios can help a business to better understand their way of tracking their day to day expenses or whether they are experiencing any cash flow problems. It can also help them to analyze the productivity rate based on the number of staffs employed. They can check how quickly they can turn their stock into a sale; they can also observe their customers' payment habits based on the terms of payment they have set.

Moreover managers and analysts can find a trend and use it for future forecasting which can also be used for making important decisions by external stakeholders, e.g. investors. It is one of the easiest ways to hold the relationship between various elements and helps in understanding the financial statements. Every stakeholder can easily understand it and can determine or take decision that would be best for future investment. It is very important to access the performance of the firms by analyzing its asset management, liquidity, profitability, and efficiency ratios. All of these ratio analyses are widely used for making important decisions and future forecasting.

The technique of ratio analysis is a very useful tool for analyzing the financial performance of a firm. But it has some constraints which must be kept in mind before exploring such analysis. Financial statements provide prior information and do not consider current conditions which are not useful in predicting the future. Firms use different accounting policies regarding charging depreciation, valuation of inventories etc. which can make the accounting ratios and accounting data of two firms non-comparable. Window-dressing is another limitation which means the firms are presenting the financial statements in such a way which will show a better financial position than what it actually is. Firms provide the value of fixed assets in financial statement at cost only and it does not consider the changes in price level which makes comparison difficult.

2. Literature Review

Literature review refers to the collection of the various information relating to the present study. It considers the researches of the previous researchers which are related to the present research. Here are the reviews of some previous researches related to the present study:

Manish Mittal and Arunna Dhademade (2005) stated that they found higher profitability is the only major variable for evaluating the performance of banking sector from the shareholders viewpoint. The banks should strike a balance between social and commercial objectives. They also found that most of the public sector banks are less when profitable compared to private sector banks. Foreign banks are dominating in terms of net profitability. The earning of private sector banks is higher based on non-interest income because these banks offer more and more fee based services to corporate sector or business houses. Therefore public sector banks need to provide similar services to compete with private sector banks.

Alexiou and Sofoklis (2009) stated that two profitability indicators are used as the determinants of bank profitability in Greece including Return on Assets and Return on equity, while the proposed determinants of profitability include credit risk, bank size, liquidity, bank productivity, bank efficiency, annual inflation rate, interest rate, GDP growth, private consumption and bank capitalization.

Medhat Tarawneh (2006) stated financial performance is a measured variable and it can be calculated by Return on Assets (ROA) and the targeted income size. The independent variables are assets management measured by asset usage ratio, the size of banks which can be estimated by total assets of banks (Operating income divided by total assets) and operational efficiency can be estimated by the operating efficiency ratio (total operating expenses divided by net income).

Fernando Ferreng (2012) stated it is generally agreed that recent economic crisis reinforced worldwide competition among financial institution. This competition has direct impact on how banks can achieve their objectives and deal with their customers. Performance evaluation of banks is the essential obligation for improving bank's performance. Bank's success and profitability depends comprehensively on the bank's branch financial performance.

Davydenko (2011) stated that the profitability in Ukraine is measured by return on assets, while the proposed determinants of profitability are divided into bank-specific determinants, industry-specific determinants and macroeconomics determinants. Bank

capitalization, bank risk, bank size, cost management, liquidity, loan to total assets ratio, and deposits to total assets ratio are used as the bank-specific determinants, industry-specific variables include bank concentration and foreign ownership, inflation, exchange rate and financial crisis are three macroeconomic variables which are supposed to influence the bank profitability in Ukraine. Fixed effect, random effect and GMM (Generalized Method of Moments) estimator are used as the econometric technique, the results from the estimations show that bank profitability is significantly and negatively affected by bank risk, expenses and the volume of deposit and positively affected by capitalization.

Nutan Troke and P K Pachorkar (2012) stated that the proportion of other income in the total income is higher for private sector bank compared to public sector banks. Public sector bank relies on intent income for their efficiency and performance. The operational efficiency is better of private sector banks compared to public sector banks. Private sector bank uses their assets quality better compared to public sector banks.

3. Objectives of the Report

The purpose of the report is to analyze ratio analysis of Prime Bank Limited. The report was conducted to accomplish the following specific objectives:

- To calculate the financial ratios
- To analyze and discuss the ratios
- To identify the areas of concern
- To make some recommendations on the basis of findings

4. Methodology of the Report

This report is analytical in nature which briefly reveals the ratio analysis of Prime Bank Limited. It has been conducted by collecting secondary data. Annual reports of Prime Bank Limited were used as the major secondary data source in this aspect. This study has been conducted by collecting data for the period of last five years (2014-2018) using the following sources:

- Annual Report of Prime Bank Limited.
- Official Website.
- Books, paper and publications.

5. Financial Ratios

A. Current Ratio

The current ratio which is one of the most commonly used financial ratios helps to calculate the firm's potential to meet its short term obligations. The greater the ratio the better the liquidity position of the firm. The standard of current ratio is 2:1. It is expressed as:

$$Current\ Ratio = \frac{Current\ Asset}{Current\ Liabilities}$$

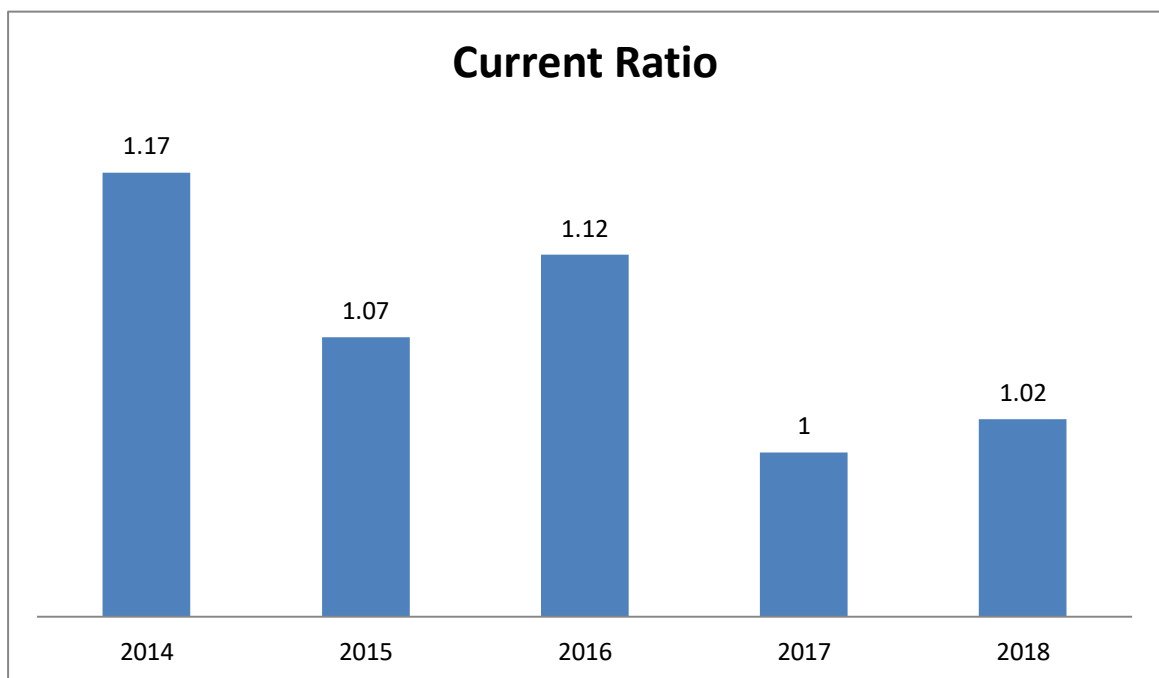| Table 1: Current Ratio					
Ratio	**2014**	**2015**	**2016**	**2017**	**2018**
Current Ratio	1.17	1.07	1.12	1.00	1.02

Figure 1: Current Ratio

The trend of the graph of current ratio of Prime Bank Limited is decreasing. In 2014 the current ratio was 1.17 and with its decreasing trend the value on 2018 was 1.02 which indicates a higher risk of misery or could indicate increased operational risk and likely to pull down the company's value.

B. Debt Ratio

The debt ratio is calculated to measure the range of financial leverage which is defined as total assets provided by the firm's creditors.

$$Debt\ ratio = \frac{Total\ Liabilities}{Total\ Assets}$$

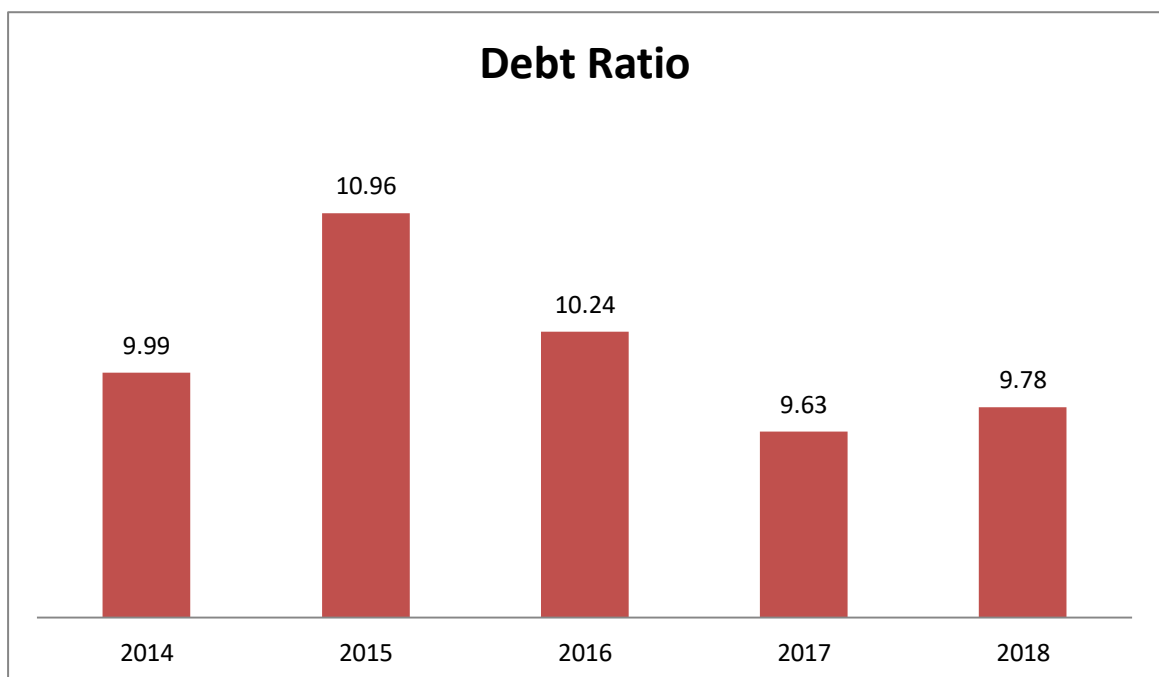| Table 2: Debt Ratio					
Ratio	**2014**	**2015**	**2016**	**2017**	**2018**
Debt Ratio	9.99	10.96	10.24	9.63	9.78

Figure 2: Debt Ratio

Prime Bank Limited's debt ratio is fluctuating as it increased in 2015 from 9.99 to 10.96. It gradually decreases to 9.63 in 2017 but again it increased to 9.78 which indicate that a huge percentage of the company's financing asset is from debt. Generally a lower ratio is better.

C. Cost Income Ratio

It calculates the operating efficiency by measuring the percent of the total operating income which the firm spend to operate their daily activities. It is calculated as follows:

$$Cost\ Income\ Ratio = \frac{Total\ operating\ Expenses}{Total\ Operating\ Income}$$

Table 3: Cost Income Ratio

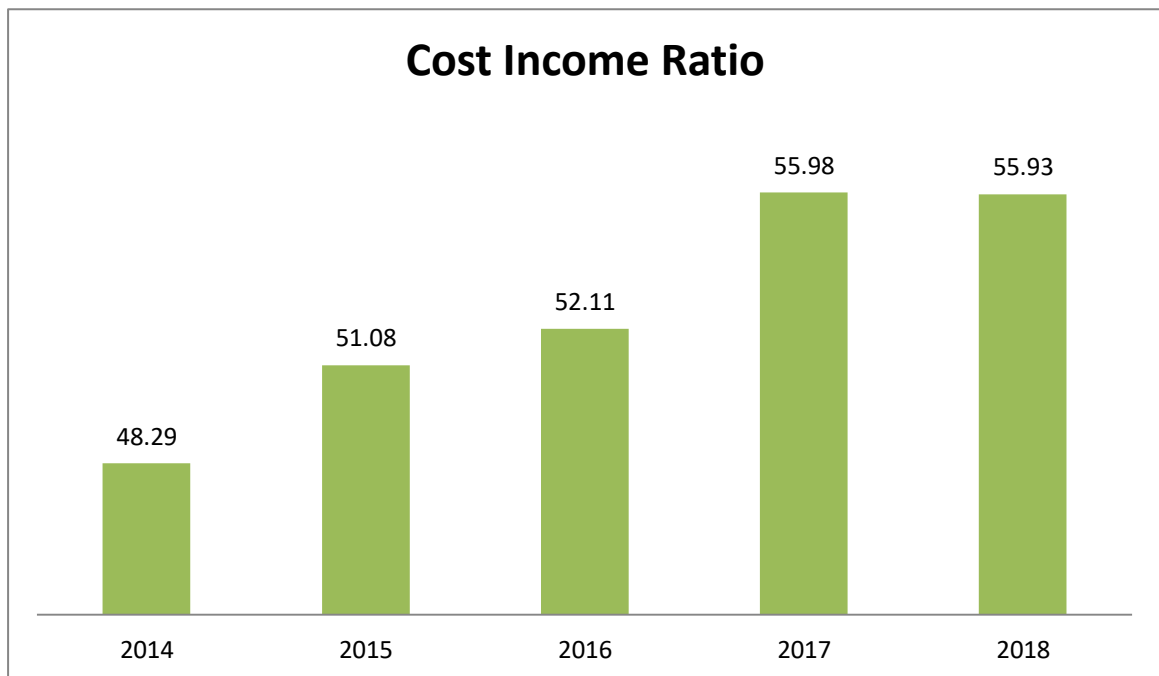| Ratio	2014	2015	2016	2017	2018
Cost Income Ratio	48.29	51.08	52.11	55.98	55.93

Figure 3: Cost Income Ratio

Cost to income ratio has an upward trend which means that costs are rising at a higher rate than income, which could suggest that the company is not focusing in minimizing the cost. In 2017 the cost to income ratio of Prime Bank Limited is high. So we can say that the operating efficiency of the Prime Bank Limited is not good. That means they are not able to minimize their operating cost, day by day it is getting high.

D. Total Asset Turnover Ratio

The total asset turnover suggests the efficiency of a firm in using all its assets to generate income.

$$Total\ Asset\ Turnover = \frac{Operating\ Income}{Total\ Asset}$$

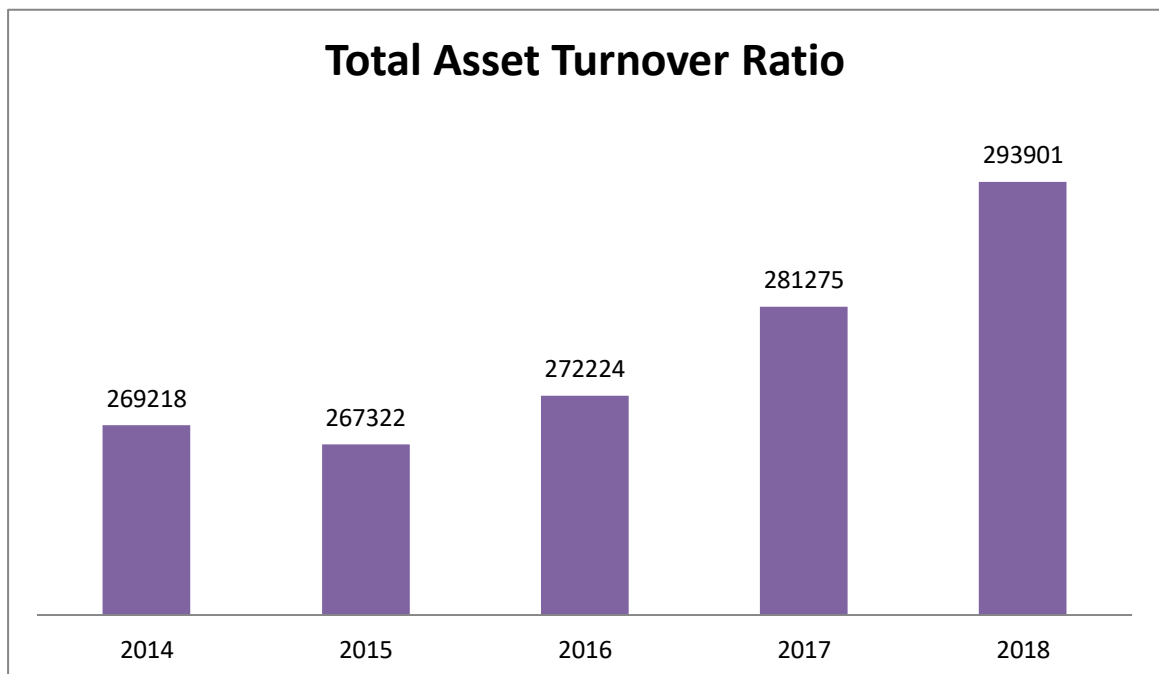| Table 4: Total Asset Turnover Ratio					
Ratio	**2014**	**2015**	**2016**	**2017**	**2018**
Total Asset Turnover Ratio	269218	267322	272224	281275	293901

Figure 4: Total Asset Turnover Ratio

The total asset turnover ratio is following an upward trend. Their total asset turnover is lowest in 2015 but it is highest in 2018. This shows that Prime Bank Limited is using its assets more efficiently to generate operating income.

E. Operating Profit Margin

The operating profit margin means the exact profits earned on each dollar sales. A higher ratio is more preferable by the stockholders. The operating profit margin is calculated as follows:

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

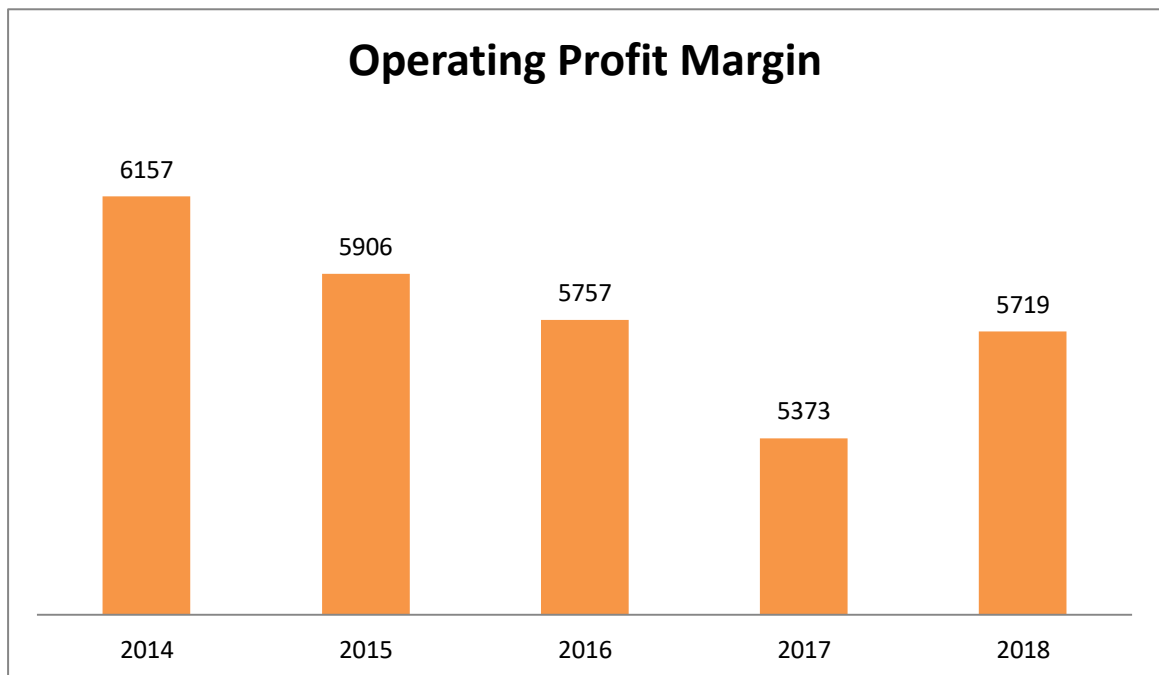| Table 6: Operating Profit Margin					
Ratio	**2014**	**2015**	**2016**	**2017**	**2018**
Operating Profit Margin	6157	5906	575	5373	5719

Figure 5: Operating Profit Margin

The operating profit margin is following a downward trend from 2014 to 2017 but in 2018 it is going upwards. In 2014 the value was 6157 and in 2017 it was 5373 but in 2018 it increased to 5719 which indicates that from 2014 to 2017 the company was unable to generate enough income from their operations to pay for their variable costs and fixed costs. But in 2018 they managed to increase their income over operating expenses.

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F. Net Profit Margin

The net profit margin is calculated as the percentage of each dollar sales remaining after all expenses have been deducted including tax. The higher ratio is considered to be better. It is commonly used by the firms to measure the firm's success with respect to earnings on sales.

$$Net\ Profit\ Margin = \frac{Net\ profit\ after\ tax}{Operating\ income}$$

Table 7: Net Profit Margin

Ratio	2014	2015	2016	2017	2018
Net Profit Margin	1.91	0.86	2.02	2.56	3.63

Net Profit Margin

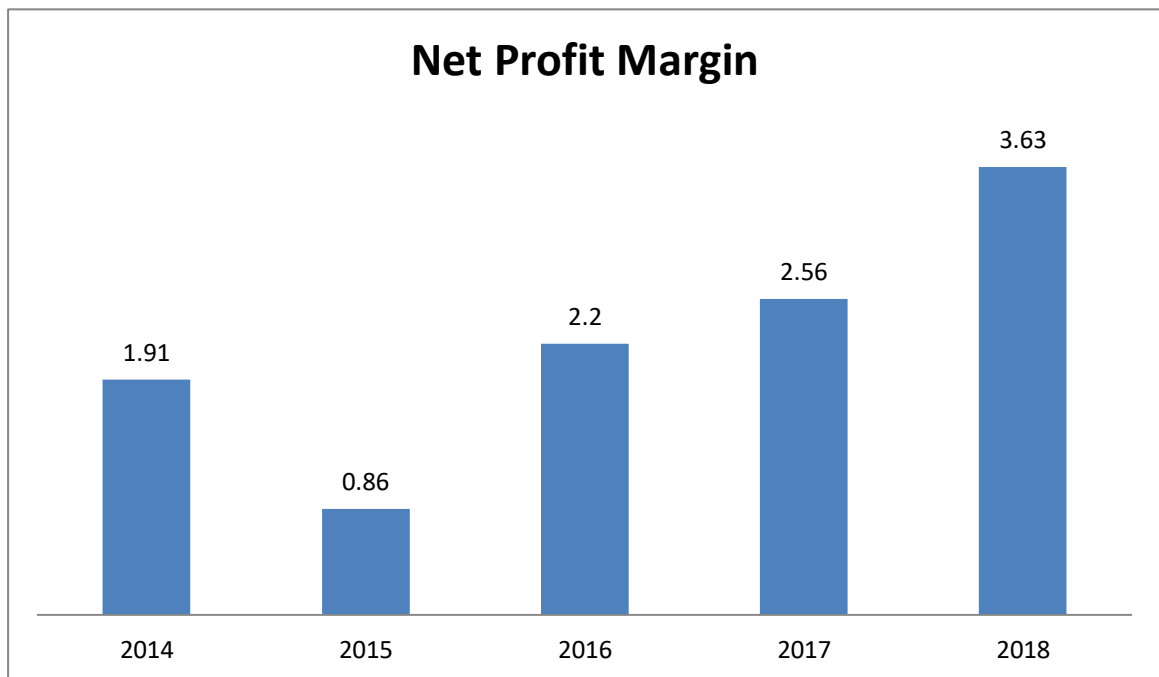|	2014	2015	2016	2017	2018
	1.91	0.86	2.2	2.56	3.63

Figure 6: Net Profit Margin

Here, net profit margin is following an upward trend. The lowest value was 0.86 in 2015 and the highest value was 3.63 in 2018 which means that the company is more efficient at generating sales into actual profit.

G. Return on Asset

The return on asset calculates the overall effectiveness of management in generating profits with the available assets. It is often called the firm's return on total assets. The higher the ratio is better.

$$Return\ on\ Asset = \frac{Net\ Profit\ after\ tax}{Total\ Asset}$$

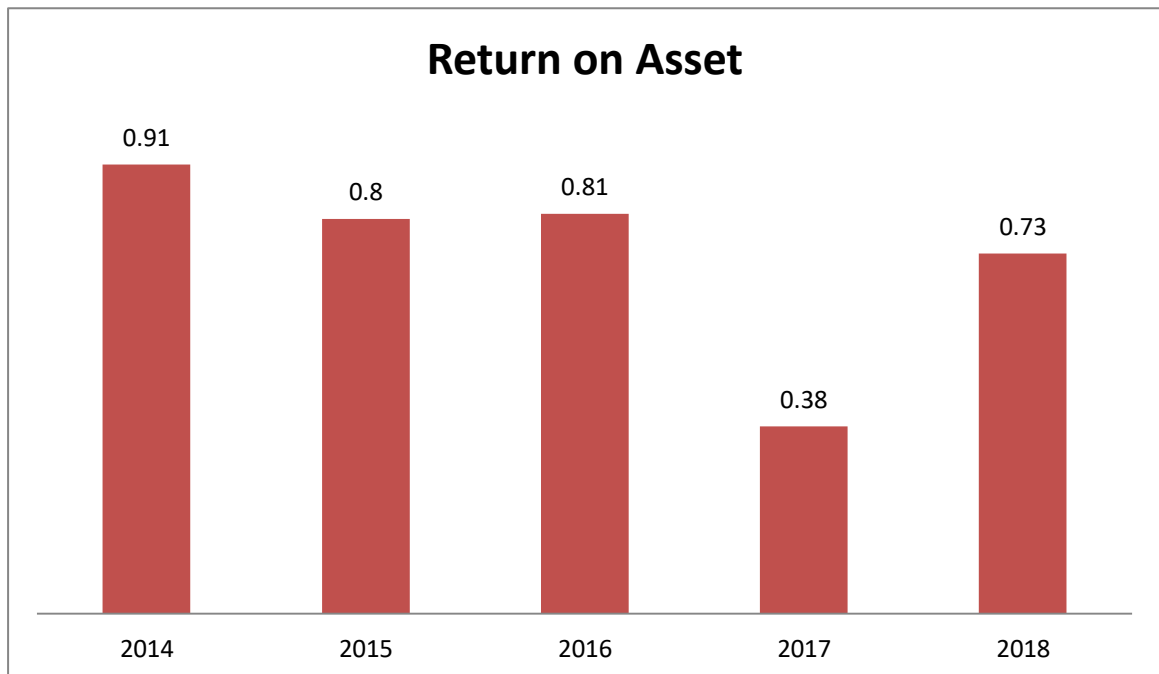| Table 8: Return on Asset					
Ratio	**2014**	**2015**	**2016**	**2017**	**2018**
Return on Asset	0.91	0.80	0.81	0.38	0.73

Figure 7: Return on Asset

The bank's return on asset was following a downward trend till 2017. The highest value was 0.91 in 2014 and lowest value was 0.38 in 2017 but it changes upwards to 0.73 in 2018 which indicates that its earning capacity has increased from 2017 but it is still lower than 2014. Thus it can be said that the proportion of their earning is not increasing year by year regularly.

H. Return on Equity

The return on equity calculates the return earned on the investment of the owner. Generally, higher return is considered better.

$$Return\ on\ Equity = \frac{Net\ Profit\ after\ Tax}{Shareholders\ equity}$$

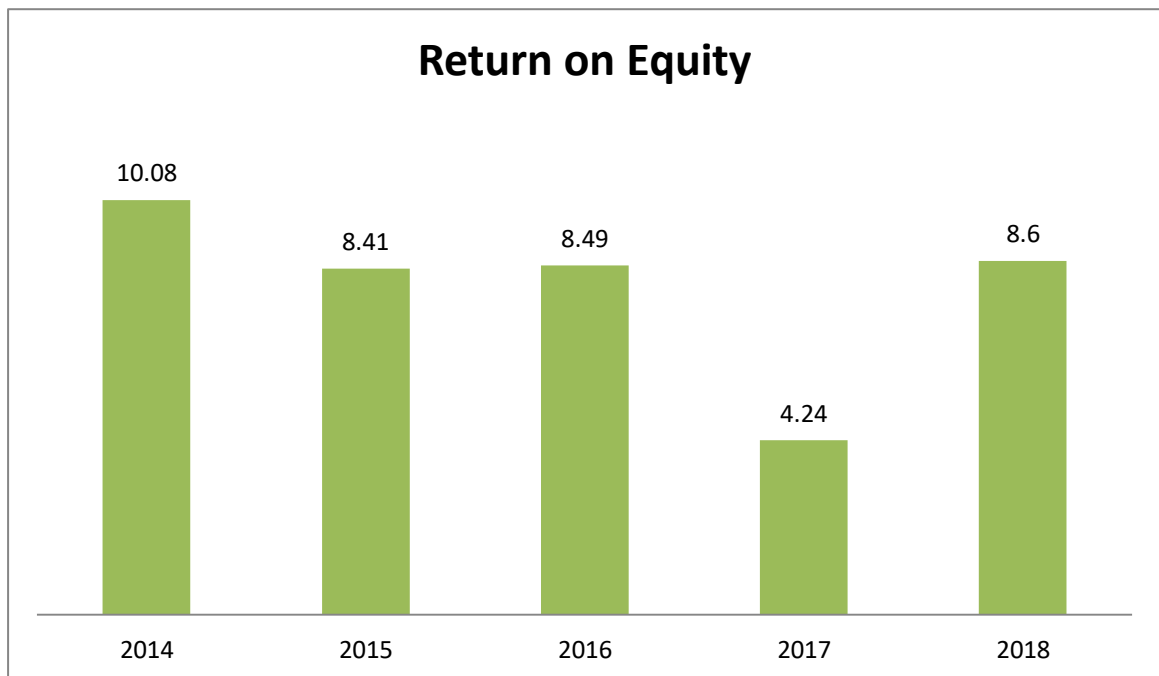| Table 9: Return on Equity					
Ratio	**2014**	**2015**	**2016**	**2017**	**2018**
Return on Equity	10.08	8.41	8.49	4.24	8.60

Figure 8: Return on Equity

The return on equity ratio was declining from 2014 to 2018. That was decreased from 2014 to 2015 and 2017-2018.It is not preferable for the firm. So, the management should try to increase the return on equity though, the return has slightly increased in 2016 from 2015.

I. Earnings per Share

The firm's earnings per share is generally presented in the interest of the potential stockholders and management. The Earnings per share constitutes the number of dollars earned on behalf of each outstanding share of common stock. The earnings per share are calculated as follows:

$$Earnings\ per\ Share = \frac{Earnings\ available\ for\ common\ stock\ holder}{No\ of\ shares\ of\ common\ stock\ outstanding}$$

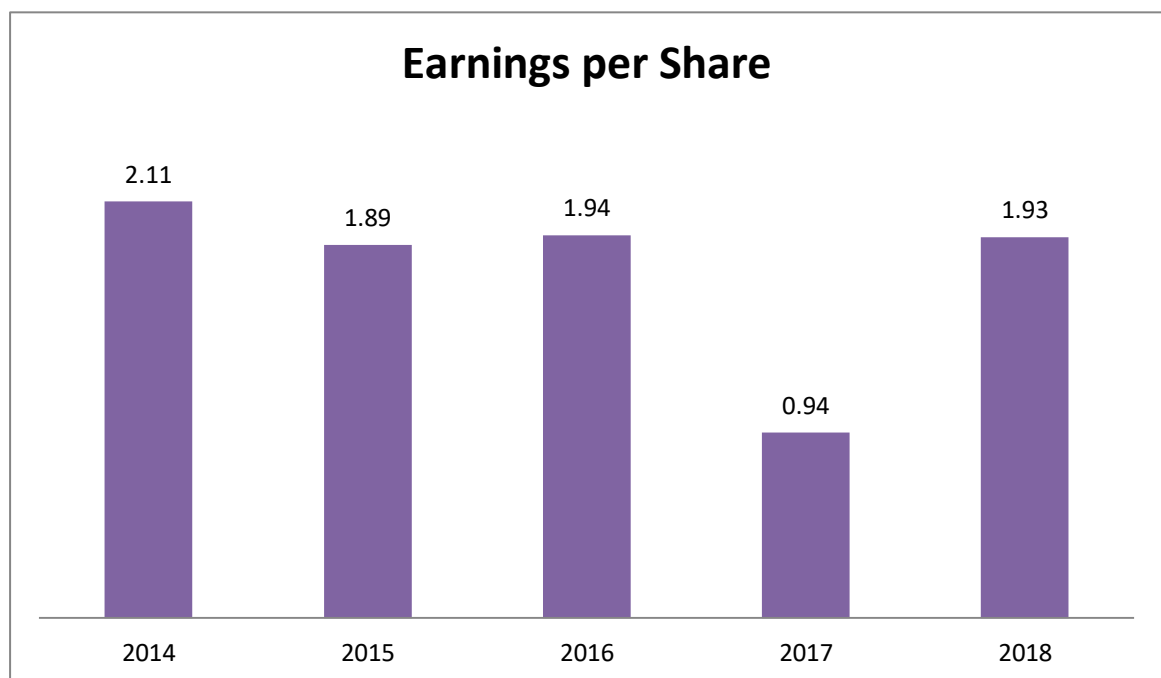| Table 10: Earnings per Share					
Ratio	**2014**	**2015**	**2016**	**2017**	**2018**
Earnings per Share	2.11	1.89	1.94	0.94	1.93

Figure 9: Earnings per Share

The bar chart shows that, EPS is highest in 2018 and there is a downward trend in EPS from year 2014 to 2017. But Prime Bank Limited has managed to increase their EPS as we can see in the bar chart. The value has not changes much from 2014 to 2016 but it was lowest in 2017 and increased in 2018 which is still lower than 2014.

J. Price Earnings Ratio

The price or earning (P/E) ratio is commonly used to evaluate the investor evaluation of share value. It shows how much the investors are eager to pay for each taka of the firm's earnings. The investors' confidence is greater when the firm's P/E ratio is higher. The price Earning (P/E) ratio is calculated as follows:

$$Price\ Earnings\ Ratio = \frac{Market\ price\ per\ share\ of\ common\ stock}{Earning\ per\ share}$$

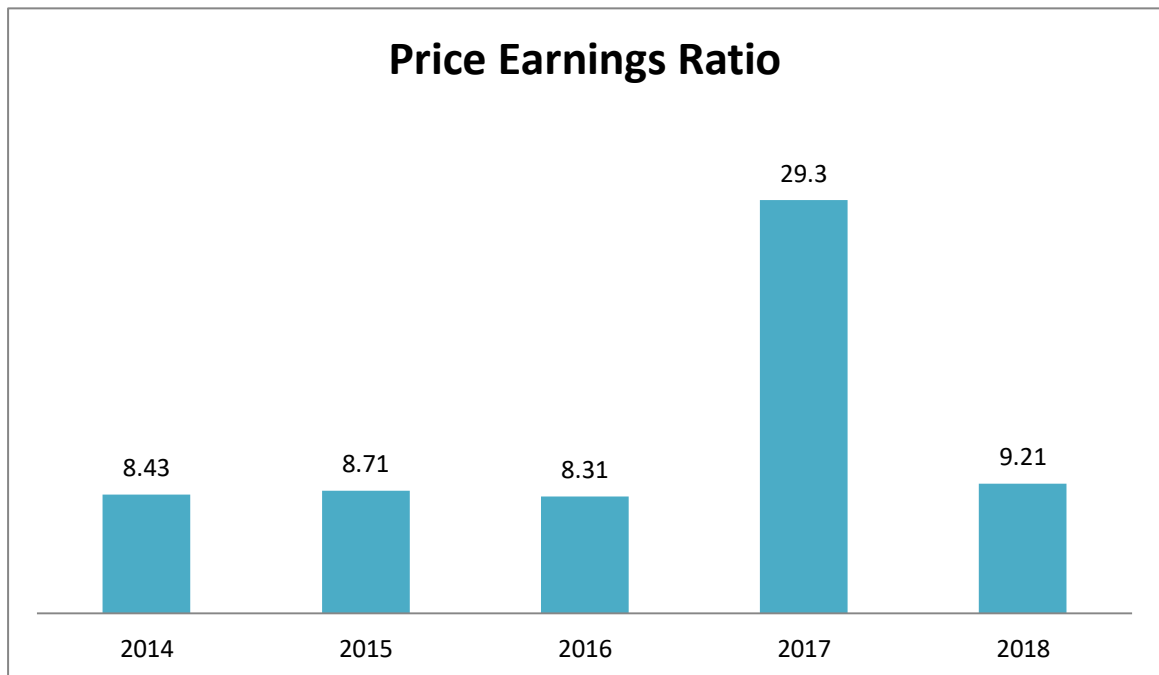| Table 11: Price Earnings Ratio					
Ratio	**2014**	**2015**	**2016**	**2017**	**2018**
Price Earnings Ratio	8.43	8.71	8.31	29.30	9.21

Figure 10: Price Earnings Ratio

It calculates the level of price that the investors are paying for per taka of earnings offered by the bank. From the graph we can see that in year 2017 the investors paid maximum amount of price for per unit of earnings in which the bank issued its share in the market. In 2017 to 2018 it is decrease. This is not good a sign for the Bank.

6. Findings and Analysis

It is common that the company would have certain problems while operating such organization. There are few problems explained from the study of this report. They are:

- The trend of the graph of current ratio of Prime Bank Limited is decreasing. In 2014 the current ratio was 1.17 and with its decreasing trend the value on 2018 was 1.02 which indicates a higher risk of misery or could indicate increased operational risk and likely to pull down the company's value. In general a current ratio greater than 1 or 2:1 suggests that the company has enough financial resources to remain secure in paying off the short-term liabilities. As we can see that the current ratio of Prime Bank limited has a decreasing trend it may soon have a current ratio below 1 which means the company might not have enough current assets on hand to meet its short-term obligations.

- Prime Bank Limited's debt ratio is fluctuating as it increased in 2015 from 9.99 to 10.96. It gradually decreases to 9.63 in 2017 but again it increased to 9.78 which indicate that a huge percentage of the company's financing asset is from debt. Generally a lower ratio is better. A value of 1 or less in debt ratios shows good financial health of a company. It means the company has high risk of being bankrupt since too much debt can lead to a heavy debt repayment burden.

- Cost to income ratio has an upward trend which means that costs are rising at a higher rate than income, which could suggest that the company is not focusing in minimizing the cost. The operating efficiency of Prime Bank Limited is not good and that means they are not able to minimize their operating cost which is increasing day by day. Generally the lower the cost/income ratio is, the more profitable it should be.

- The total asset turnover ratio is following an upward trend. Its total asset turnover is lowest in 2015 but it is highest in 2018. This shows that Prime Bank Limited is using its assets more efficiently to generate operating income.

- The operating profit margin follows a downward trend from 2014 to 2017 but in 2018 it is going upwards. In 2014 the value was 6,157 and in 2017 it was 5,373 but in 2018 it increased to 5,719 which indicates that from 2014 to 2017 the company was unable to generate enough income from their ongoing operations to pay for

their variable costs and fixed costs. But in 2018 they managed to increase their income over operating expenses.

- The net profit margin is following an upward trend. The lowest value was 0.86 in 2015 and the highest value was 3.63 in 2018 which means that the company is more efficient at generating sales into actual profit.

- The bank's return on asset was following a downward trend till 2017. The highest value was 0.91 in 2014 and lowest value was 0.38 in 2017 but it changes upwards to 0.73 in 2018 which indicates that its earning capacity has increased from 2017 but it is still lower than 2014. Thus it can be said they are unable to increase their income year by year regularly.

- The return on equity ratio has decreased over the year from 2014 to 2018. Though return on equity has increased moderately in 2016 from preceding year, still it is significantly varies from that of in 2018. Most analysts consider that an ROE in the range of 15% to 20% to be beneficial for purposes of investment. Since all the values of Prime Bank Limited, over the years, has been less than 15% it shows that the company is not productively using the investments of equity investors to make additional profits and to return the profits to investors at an attractive level.

- The earnings per share of Prime Bank Limited is following a decreasing trend. The value has not changes much from 2014 to 2016 but it was lowest in 2017 and increased in 2018 which is still lower than 2014. A higher value of earnings per share is always better than a lower ratio because it shows the company is more profitable and has the potential to distribute profits to its shareholders.

- The Price earnings ratio of Prime Bank Limited haven't changed much from 2014 to 2016 but in 2017 it had an abnormal change as its value suddenly increased to 29.3 from 8.31, it may happen because the management might have manipulated it with specific accounting techniques. A higher value indicates constructive future presentation and investors will be willing to pay more for this company's shares.

7. Recommendations

There are few recommendations provided below for the previously mentioned problems:

- As the current ratio of Prime Bank Limited was decreasing year to year. So, it should try to increase this ratio by paying off current liabilities, sell off unproductive assets and increase current assets by raising shareholder's fund etc.

- As we have already seen that a huge percentage of the company's financing asset is from debt. But the risk of the company is decreasing as it is following downwards trend. So they should continue what they are doing.

- Their cost to income ratio has an upwards trend which is not a good sign. So, they should try to reduce operating expenses such as reduce labor costs and increase operating sales.

- Prime Bank Limited's total asset turnover had an increasing trend which means they were efficiently using their assets to generate income. So, they should follow what they were doing.

- Prime Bank Limited can improve their operating profit margin by increasing sales to achieve cost-effectiveness through economies of scale and lowering production costs while at the same time bringing in extra revenue.

- The return on asset has a downward trend which can be improved by increasing revenue, reducing expenses and reducing assets cost.

- The return on equity ratio is following downward trend which is not good, the management should work hard to increase the return linked with equity by increasing profit margins, using more financial leverage, improving asset turnover and distributing idle cash etc.

8. Conclusion

Prime Bank Limited is setting new standards in the banking arena in the time of turbulent economic conditions. As a major aspect of the long haul money related change and modernization plan of the administration, the bank had been changed over into an open constrained organization. Bank is a budgetary middle person that gathers cash as store from inert segment for example family unit by giving enthusiasm against store and prepare this cash into beneficial area for example industry, horticulture, producing from by gathering enthusiasm against advance. The contrast between premium cost and premium increase is the bank's principle benefit. In banking language it is called spread. Without a bank a financial advancement can't be envisioned. The prime bank one of the leading banks in our country that also plays a vital role in games. Prime bank collect deposit by providing different types attracting deposit product and provide loan by offering different types of investment product.

From the trend analysis Prime Bank Limited equity ratio, asset turnover, P/E ratio earning capacity and interest ratio are fluctuating year by year and this indicates unsatisfactory position but its leverage ratio shows the reduction of financial risk. Over the years Prime Bank Limited has made a well- built position through its range of activities. Its number of clients, amount of deposit and investment money is increasing day by day. To face the competition the bank should think to stare new services and to take different types of marketing strategy to get more customers in this competition market of banking. It can be said that, Prime Bank Limited Is growing fast and its contribution in our economy is also considerable. I hope that Prime Bank Limited will widen its services by expanding its products and branch all over the country. I sincerely hope that with the gradual and successful globalization of Islamic banking coupled with growing awareness of the people about its financial and social benefits makes it clear that the this decade is going to be the decade of Prime Bank Limited.

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