



Internship Report

On

**“Fundamental Analysis & Valuation of Bangladesh Finance
Limited”**



Submitted to

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LETTER OF TRANSMITTAL

Date: 23rd March, 2022

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Subject: Submission of Internship Report on “Fundamental Analysis & Valuation of Bangladesh Finance Limited”

Dear Ma’am,

It is my great pleasure to submit my internship report on “Fundamental Analysis & Valuation of Bangladesh Finance Limited” as a requirement of BBA program. In this report I have portrayed the valuation of Bangladesh Finance Limited. In order to get the results, I have done studies on valuation methodologies for financial institutions as well as the functions of financial institutions.

I have tried my level best to make this report as much informative as possible. I am thankful to you for your kind support and supervision, and sincerely believe and hope that this report will cover your expectations. Yet, if any shortcomings arise, it will be my pleasure to answer any clarification and suggestions regarding this report.

Sincerely

.....

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Acknowledgement

The accomplishment of my Internship Report is the result of the contribution and intentness of a number of people; without their helpful direction and recommendations, the report would have been nearly impossible to complete. Firstly, I would like to thank my honorable internship supervisor **Nusrat Farzana** (*Asst. Professor-Finance*), School of Business & Economics, **United International University** for providing me guidance throughout the entire journey of making this report.

I must show my gratitude to my supervisor **Amitav Debnath (FCA)**, Head of Finance at **Bangladesh Finance Ltd.**, who willingly took my responsibility and shared his vast knowledge of 12 years in financial industry. I am also grateful to all the employees of Financial Administration Division (FAD), **Bangladesh Finance Ltd.** Special thanks to **Md. Monowar Hossain Sarkar**, Senior Officer (Finance & Accounts) at Bangladesh Finance for providing me all the necessary data & guiding me towards my ultimate goal.

Finally, I would like to thank all the concerned personnel and respected teachers of BBA program of UIU for their assistance and cooperation during my entire BBA program.

Executive Summary

The prerequisite of buying and selling an asset profitably is to identify the value of it. Finance can value pretty much every asset. According to Finance, the fundamental rule of valuing an asset is to find out the cash flows the asset is going to generate in the near future & discounting it to landing into a number. If someone has a desire to buy an asset, he will find a way to buy the asset. But valuation of an assets gives the chance to the rational side of human being before buying an asset.

In the first part of my report I tried to define what the valuation of an asset is. Thereafter, I tried to understand the thin line between valuing a financial company & manufacturing company. In the last part of literature review section, I made a brief discussion about valuation methodologies & how they are used.

The sole purpose of this report was to value a Financial Institution named Bangladesh Finance Limited. In chapter-3, I have described the nature & functions of this organization. Divisional structure, existing product & service, strategic intent & future growth potential were the main priority.

Fundamental analysis begins thereafter. A top to bottom analysis were conducted before jumping into the valuation of Bangladesh Finance. At first the global & local macroeconomic variables were dissected to create a portrayal of economic volatility. Later on an industry analysis were conducted to depict a complete picture of Bangladesh Finance's operating environment. Subsequently, financial statements of Bangladesh Finance were introduced to understand the structure & stability of Bangladesh Finance.

Forecasting of key determinants began from chapter five. At the very beginning of this part, I made a model for forecasting lending portfolio of Bangladesh Finance by the help of statistical regression technique & macroeconomic variables. Subsequently, I have discussed about the fact & factors that concerns forecasting the key elements of balance sheet & profit- loss statement of Bangladesh Finance. After aligning all the facts & assumptions, models for pro-forma financial statements were developed.

In the first part of chapter six, a model was developed for finding cost of equity (CAPM). That model contains estimating beta, market return & risk free rate of return for Bangladesh Finance. For valuing Bangladesh Finance Dividend Discount Model & relative valuation were chosen. A portrayal of these two model can be seen in the last part of this chapter.

To conclude, a price comparison between two methods were illustrated including a buy or sell decision.

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Chapter 1 - Introduction

1.1 Origin of the report

The completion of internship is an integral part of the BBA Program and it serves the purpose of practical orientation in the related field. I was fortunate enough to complete my internship from Bangladesh Finance Limited. Since, it is one of the growing & reputed Non-Banking Financial Institution it provided me with a real life exposure of the activities of a financial institution. During my internship period I worked thoroughly on the annual report preparation for year 2021. Through that course of time, I had to deep dive into the financial statements & functions of Bangladesh Finance for the purpose of representing their performance & growth prospect in their annual report. Sophisticated nature of the FI's financial statements & functions motivated me to implement the valuation techniques taught by our course teacher. This report has been originated as a course requirement of the BBA Program.

1.2 Objective of the report

- ✓ The prime objective of this report is to find out the ideal worth of Bangladesh Finance Limited.
- ✓ Another objective is to illustrate the theoretical difference between valuing a financial institution & manufacturing company.
- ✓ Understanding the functions of Bangladesh Finance a non-bank financial institution.
- ✓ Analyzing the historical performance of Bangladesh Finance Limited.

1.3 Methodology of the report

Data Collection: Historical financial data has been collected from the audited annual & quarterly financial statements of Bangladesh Finance. Besides, macroeconomic & industry regarding datasets are collected from trusted source like International Monetary Fund & Bangladesh Bank. Datasets like historical stock price movement & index movements are extracted from Dhaka Stock Exchange & Stock Bangladesh's Website. On the other hand, some functional & strategic information concerning Bangladesh Finance are collected from the Financial Administrative Department of Bangladesh Finance.

Analysis: For forecasting financial performance, statistical techniques like regression has been used. As an analysis tools, mostly SPSS & Microsoft Excel were used. Moreover, the theoretical frameworks & formulas were collected from reputed publications & books.

1.4 Limitations of the report

- ✓ Couldn't avail the financial data up to the fourth quarter of 2021, due to risk of unaudited price sensitive information leakage in the capital market. This highly exposed this model into the factors like undervaluation.
- ✓ Primary knowledge regarding valuation methodologies.
- ✓ Had to build the knowledge, regarding valuation of financial institutions, from the scratch.
- ✓ Vague knowledge regarding International Financial Reporting Standards (IFRS) made it extremely sophisticated to breakdown the details of financial statements.
- ✓ Shallow knowledge concerning the regulatory requirements of financial institutions & their maintenance.

Chapter-2: Literature Review

2.1 Introduction to Valuation

Knowing how much an asset is worth and what factors influence that value is essential for making informed decisions. Valuation helps us to take decisions like choosing investments for a portfolio, in deciding on the appropriate price to pay or receive in a takeover, and in making investment, financing, and dividend choices when running a business. It's a matter of fact that rational investors will never be willing to pay more than the value of an asset. However, in every market there are people disingenuous enough to argue that value is in the eyes of the beholder, and that any price can be justified if there are other investors willing to pay that price. This opinion is clearly absurd & we should not buy an asset based on aesthetic or emotional reason unless or until it's a painting or a sculpture. Rather we should buy financial assets based on the expected cash flow we are going to receive from them in future. Subsequently the perception of the future cash flows should be realistic & that indicates the price we pay for an asset should reflect the cash flow it is expected to generate (Damodaran, Damodaran on valuation : security analysis for investment, 2006)

2.2 Why valuation of a financial institution is different?

The principal of valuation are well established but for valuing a financial institution analysts have to go an extra mile. There are three reason behind this special challenges. The first is that the nature of their enterprises makes defining debt and reinvestment complex, making cash flow forecasting much more challenging. The second reason is that these businesses are frequently regulated, and changes in regulations can have a significant impact. The third point is that financial services firms' accounting rules have historically been considerably distinct from other firms' accounting rules, with assets being marked to market more frequently (Damodaran, Valuing financial services firms, 2013)

The **regulatory** authority's puts regulatory constrain on how financial institutions should run their business & how much capital they need to set aside to keep operating. To begin, banks and insurance companies must maintain statutory capital ratios based on their risk exposure to guarantee that they do not grow beyond their means and endanger their claimholders or depositors. Financial services firms are frequently restricted in their investment options. These regulations are concerning for valuation because the valuation perspective are linked with the assumption about reinvestment. Thus analyst should ensure that their assumptions will pass through regulatory requirements (Damodaran, Valuing financial services firms, 2013)

Different **accounting rules** are another concern for analyst while valuing a financial service firms. To begin, financial services firms' assets are frequently traded financial instruments (bonds, securitized liabilities). Marking assets to market value has long been a standard practice in financial services firms, long before other businesses began to talk about fair value accounting. That creates two problems. The first is in comparing financial and nonfinancial services organizations' book value ratios (both market to book ratios like price to book and accounting measures like return on equity). The second is to interpret these ratios once they've been calculated. While the return on equity of a nonfinancial services firm can be considered a measure of the return earned on equity originally invested in assets, the same cannot be said of the return on equity of financial services firms, where the book value of equity measures an updated market value (or at least the accountant's measure of that market value). Another point of concern is smoothing out earning by loss provisions. Financial institutions keeps

provisions to fight against credit risk rather than just writing off the bad loans. These provisions average out losses over time & this amount is generally charged against earnings every year. Now this amount of provision can be varied based on the aggressiveness of the financial institution. A conservative bank will tend to keep a higher provision whereas an aggressive bank will tend to keep lower provision. Thus illusions can be created in profitability through provisioning differences (Damodaran, Valuing financial services firms, 2013).

Business can raise funds in only two ways and those are through debts & equity. This rule is constant for every firm. However, rather than viewing debt as a source of capital, most financial institutions treat debts as a source of raw material. Basically debt to a bank is what steel is to automobile companies. The definition of debt for financial institutions is cloudy. For instance, if we consider deposit as a debt of the FIS then interest expenses regarding deposits should be deducted after the operating income which is not the case. Another point of concern is degree of **financial leverage**. Even if we define debt as a source of capital for FIs, still it differs from a manufacturing company. Financial institutions tend to use more debt in funding their business and that portrays a higher financial leverage than other industries. That is one of the reasons why financial institutions are regulated in such way. For financial institutions equity is just a narrow piece of overall value & that can lead to a big swing in equity from a slight change in the value of assets (Damodaran, Valuing financial services firms, 2013).

Estimating cash-flows for financial service firm is another daunting task. It's predefined that FI's go through strict regulations in terms of investing their fund & reinvestment is considered as future potential growth while valuation. Thus regulatory impacts make it complex to measure reinvestments. To measure reinvestment, analysts need to consider net capital expenditure & working capital which is also problematic for financial institutions. Like manufacturing firms financial institutions don't invest in property, plant & equipment or other fixed assets. Conversely they primarily invest on building their brand & human capital and their investment on future growth are often categorized as operating expenses in accounting statements. That's the reason why bank's cash-flow statement shows such less capital expenditure & depreciation. On the other hand working capital is another issue. A considerable chunk of a bank's balance sheet would fall into one of these categories if working capital is defined as the difference between current assets and current liabilities. Changes in this amount can be substantial and erratic, and they may or may not be linked to future growth reinvestment. We run into two practical issues in valuing these enterprises as a result of the difficulty in gauging reinvestment. The first is that we can't forecast cash flows without accounting for reinvestment. In other words, we can't estimate a company's free cash flows now unless we know how much it's reinvesting for future growth. The second is that if the reinvestment rate cannot be measured, projecting predicted future growth becomes more difficult (Damodaran, Valuing financial services firms, 2013).

Non-Financial Companies	Financial Companies	Valuation Implications
Financing and operating decisions are separate.	Financing and operating decisions are integrated (deb its financial institutions' "raw material")	✓ Valuation is equity-side (DDM, equity DCF, equity multiples). ✓ Relevant cost of capital is the equity cost of capital.
Financial structure decisions are (usually) free.	Mandatory minimum capital Requirements.	✓ Dividends/cash flow should reflect capital requirements. ✓ Multiples adjusted in case of severe excess/deficit capital.
High degree of variation in capital structures, but extremely high leverage is rare.	Leverage is structurally high and consistent across similar financial institutions.	✓ Cost of equity (i.e. beta) should not be adjusted for leverage.
Financing, operating, and investment activities separate.	Financing, operating and investing activities are integrated and equivalent	✓ Net income (+ change in regulatory capital) is the free cash flow to equity.

Table 1: Valuation implications of the difference between non-financial and financial companies

Source: The Valuation of Financial Service Company (Massari, Gianfrate, & Zanetti, 2014)

2.3 Valuation approaches for financial institutions

When it comes to valuation, the analyst must first pick which method(s) to use. The purpose of the valuation (i.e., M&A deal vs. investment recommendation/decision), the nature and complexity of the financial institution, the availability of both internal and macro data, and the time and resources the analyst can devote to the process are all factors that influence the decision (Massari, Gianfrate, & Zanetti, 2014).

It's predetermined that the value of an asset should be the present value of an asset's expected cash flows but in case of financial service firms dividend is the only tangible cash flow that can be observed. For that reason it's suggested to value financial service firms on the basis of equity. For valuing a non-financial firm we use weighted average cost of capital (WACC) but for financial firms we need use cost of equity for discounting the equity cash flows. No mx & mismatch should be allowed (Damodaran, Valuing financial services firms, 2013).

Mostly valuation of financial institutions can be divided into three primary category. The first group of approaches is based on discounting future projected results, with the forecasted results being either dividends, stock cash flows, or excess returns. The second category comprises all multiples-based approaches. Direct comparison, regression, or quantification of the multiple fundamentals can all be utilized to estimate value from comparable organizations using multiples. Finally, valuation can be done by comparing the book value of each asset and claim to the market value: the equity value will be calculated as the difference between the market values of the assets and liabilities. (Massari, Gianfrate, & Zanetti, 2014)

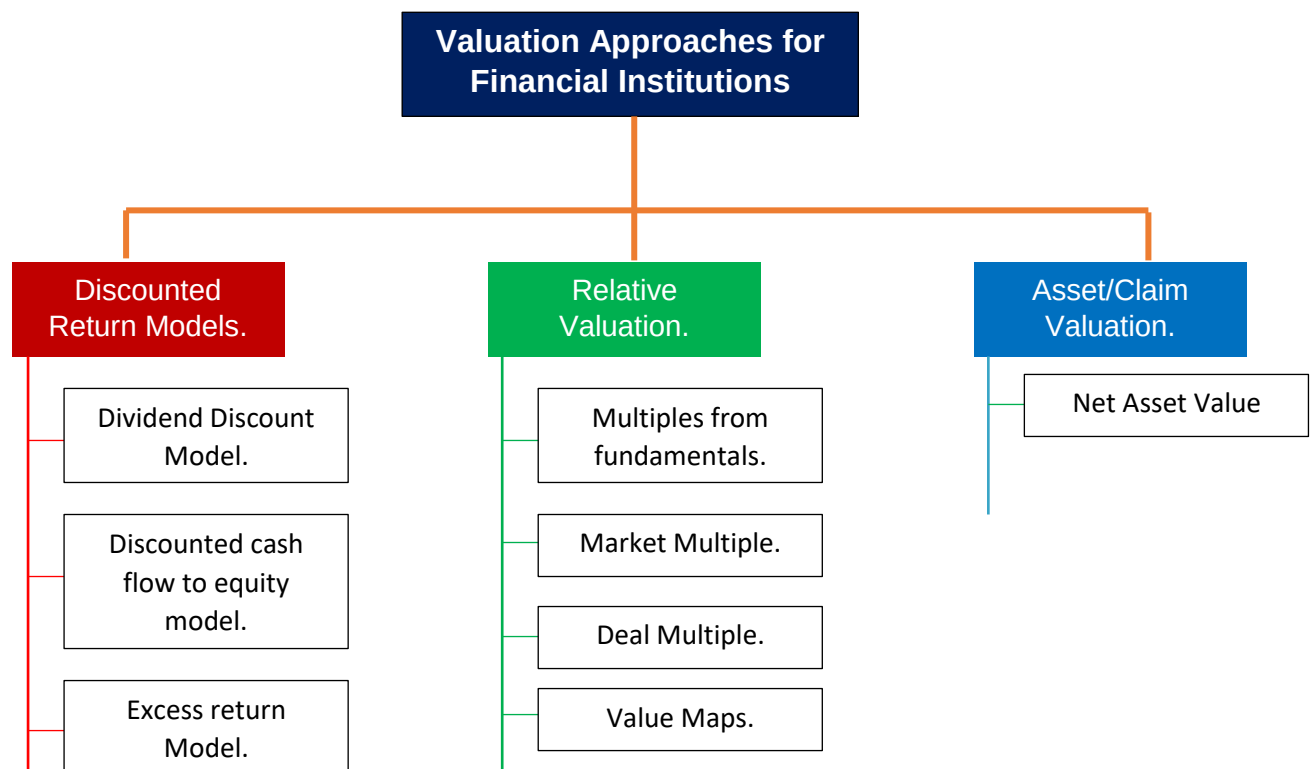


Figure 1: Valuation approaches for financial institutions

Source: The Valuation of Financial Service Company (Massari, Gianfrate, & Zanetti, 2014)

Dividend Discount Model:

According to the dividend discount model, the value of the stock is the present value of the expected dividend on the stock. In this model the basic assumption is that the publicly traded company has an infinite period of life.

$$\text{Value per share of equity} = \sum_{t=1}^{t=\infty} \frac{DPS_t}{(1+Ke)^t}$$

Here,

DPS_t = Expected dividend per share in period t

Ke = Cost of equity

g = growth rate

$$\text{Value per share of equity at stable growth} = \frac{DPS(1+g)}{ke-g}$$

So, there are three inputs in dividend discount model: the cost of equity, expected dividend & growth. Generally firms with higher dividend payout ratio tends to have a lower growth. Estimating each of the components needs consistency. (Damodaran, Valuing financial services firms, 2013)

Relative Valuation:

The fundamental premise of relative valuation approaches is that similar assets should have similar market pricing. For performing accurate relative valuation it's necessary to choose comparable firm, meaningful price & multiples in a sophisticated manner.

Comparable- Identification of company is a highly subjective process where lots of judgements & experiences are needed to be conclusive. Mostly the selection criteria includes size of the business, business model & the geographical scope. The business model criteria needs more detailed approach & plays a key role to come up with a relevant valuation. Under the umbrella of business model criteria like portfolio of services/ products, number of client served, financing structure & profitability indication like ROE growth should be considered. Generally higher number of comparable decreases the room for statistical bias.

Meaningful price- Analyst have to be cautious about the biasness of the comparable's share price. For a specific state of the market, like liquidity & inefficiency, stock price can get highly biased for a specific period of time. To avoid these kind of biases valuator can look for average closing price over a month or week.

Multiple Choice- Market multiples are widely used among finance practitioners for both financial and non-financial organizations. P/E and P/BV multiples are used to compare a bank to comparable banks in most M&A valuations, stock research reports, and investment choices. It's predetermined that the valuation of financial companies should be equity-side. In addition, all of the multiples employed for banks are equity-side multiples (Massari, Gianfrate, & Zanetti, 2014).

Conclusion

The basic concepts of valuation apply to financial services corporations just as much as they do to other businesses. However defining debt is difficult for financial service firms & that disrupts calculating weighted average cost of capital. Thus it's easy & reliable to value financial service firms based on equity side valuation. Analysts can discount the forecasted cash flows to equity by cost of equity to come up with reasonable value. Another issue with financial service firms is to determine the capital expenditure & working capital. Determining these allows analysts to estimate free cash flow & it's quite sophisticated or unreliable to determine CAPEX & WC for financial service firms. Therefore as a solution it's preferable to use expected dividends as an alternative to free cash flow to equity. As dividends also portrays the retention for growth or reinvestment of a firm. Along with that for multiple based valuation it's also preferable to use equity multiple when it's a concern of valuing financial service firms. Finally analyst have to be concerned with regulatory authority's requirements as they control financial service firm's ability to reinvest & grow.

Chapter – 3 Bangladesh Finance

3.1 Organizational Overview

Bangladesh Finance Limited (BDFINANCE) formerly known as BD Finance is a well-known financial institution that first opened its doors in 1999. Bangladesh Finance's primary goal is to provide financial services to a diverse range of clients and businesses as part of its modest effort to contribute substantially to the country's socioeconomic growth. On December 22, 1999, Bangladesh Bank granted the company authorization to function as a financial institution under the Financial Institutions Act 1993, and the company was listed on both Bangladeshi stock exchanges in 2007. In last 22 years, Bangladesh Finance has built 7 branches across Bangladesh & served 18,500+ customers. As of September, 2021 Bangladesh Finance has a loan portfolio of BDT 13,105 million & a deposit portfolio of BDT 9,325 million. Bangladesh Finance, together with its two subsidiaries Bangladesh Finance Securities Limited (Bangladesh Finance Security) and Bangladesh Finance Capital Limited, is on a mission to provide a full suite of financial services across the country. With a stronger credit rating, a solid customer deposit base, raising bonds and foreign capital, gaining clearance to start an Islamic wing, and constantly maintaining a low NPL rate, Bangladesh Finance is on its way to become the country's most renowned financial institution.

Bangladesh Finance at a Glance	
LEGAL FORM	Public Limited Company
INDUSTRY	Financial Service
REGULATORY AUTHORITY	Bangladesh Bank
TYPE OF BUSINESS	Non-Bank Financial Institution
KEY BUSINESS SEGMENTS	Cottage, Micro, Small & Medium Enterprises (CMSME); Corporate Financing; Consumer Financing including Home Loans, Auto Loans and Personals Loans; Lease Financing and Wealth Management
INCORPORATED AT	May10, 1999
HEAD OFFICE	27 Dilkusha (2nd Floor), Motijheel, Dhaka 1000.
CHAIRMAN	Mr. Manwar Hossain
MANAGING DIRECTOR & CEO	Md. Kyser Hamid
YEARS OF EXPERIENCE	22
SUBSIDIARIES	- Bangladesh Finance Securities Limited. - Bangladesh Finance Capital Limited.
NUMBER OF BRANCHES	7
NUMBER OF EMPLOYEES	300+
CREDIT RATING	Long Tern : "AA-" Short Term : "ST-2"
ACHIEVEMENTS	- International Finance Award-2019 - ICAB award - 2020 - ICSB award - 2020 - SAFA award - 2020

Table 2: Bangladesh Finance at a Glance

3.2 Organogram of Bangladesh Finance Limited

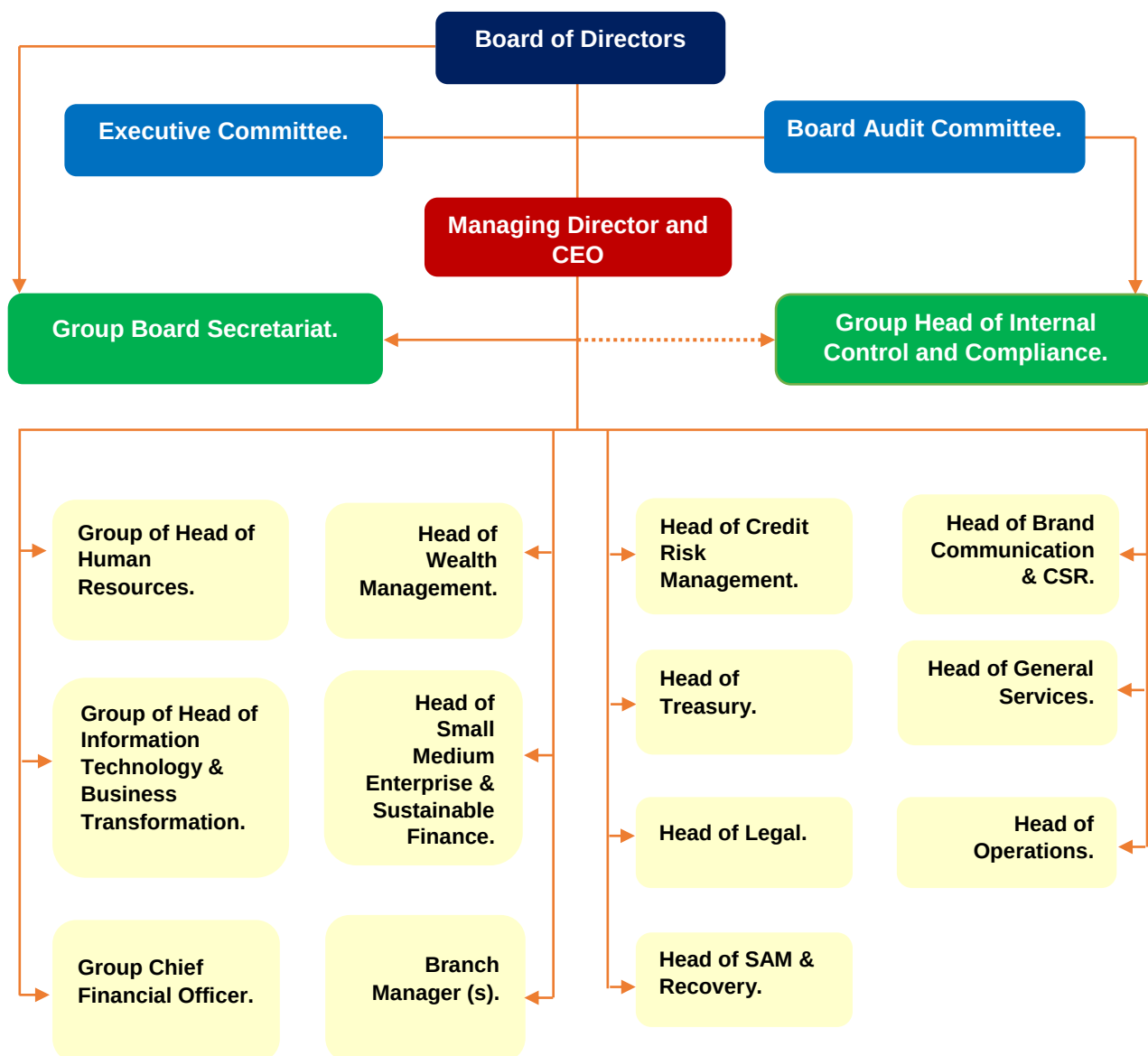


Figure 2: Organogram of Bangladesh Finance

3.3 Product & Services

Corporate		
	Product & Services	Description
Corporate Financial Services	Lease Finance	Bangladesh Finance provides a comprehensive solution for purchasing machinery, equipment, generators, vehicles, and vessels for use in company operations. Customized repayment mode by keeping harmony with the cash flow of business is a unique feature offered by Bangladesh Finance.
	Term Loan	Bangladesh Finance has the ability to tailor lending solutions to fulfill unique term finance needs. Term loans are provided to business for balancing the production line, modernizing the business & expansion of capacity etc. Loan limits are determined by the business need & tenure of the loan is generally up to 5 years.
	Working Capital Finance	Bangladesh Finance can help businesses get the money they need to buy raw materials, run their day-to-day operations, or cover overhead costs. Working capital loan under revolving nature is also offered, which means working capital loan without any fixed number of repayments. Tenure of these loans are generally 1 year.
	Bridge Finance	Bridge finance is a type of short-term financing meant to help businesses bridge the gap between current and new projects while they are being implemented. Tenure of these loans are generally 1 year.
	Syndicate Finance	For projects needing large-scale investment, Bangladesh Finance offers syndicated finance solutions. They collaborate with other banks and financial institutions to generate financing through syndication, with Bangladesh Finance serving as the main arranger. Bangladesh Finance also participates in syndicated finance arrangements as a participant institution.
	Work/Supply Order Finance	Work/supply order funding is provided by Bangladesh Finance for the fulfillment of work/supply orders issued by government, semi-government, autonomous entities, and reputable local/foreign private companies.
	Commercial Home Loan	Bangladesh Finance provides business clients with long-term commercial home loan arrangements for the development and acquisition of office buildings, commercial space, warehouses, and showrooms, among other things.
STRUCTURED FINANCE	DEBT SOLUTIONS	Bangladesh Finance's Debt Capital Market Solutions include everything from simple bond issuance to highly complicated instruments, as well as stand-alone debt offerings and loans. These Include: - Listed and Private Placement Bonds - Export Credit Agency (ECA) backed project finance - Trade Financing - Debt Securitization
	ADVISORY SERVICES	Bangladesh Finance provides advisory services to help companies accomplish their business goals and manage risk effectively. These Include: - Financial Advisory and Capital Restructuring - Project Advisory

		- Mergers & Acquisitions, Fairness Valuation - Debt/Equity Market Advisory - Joint Ventures
	EQUITY SOLUTIONS	Bangladesh Finance provides a broad variety of equity solutions based on unique client requirements to raise equity from both local and cross-border capital markets. Such as- - Issue Management for Initial Public Offering - Cross Border Private Equity - Private Placement - Preference Shares - Leveraged/Management Buy-Out

CMSME

Product & Services		Description
Financial Services for CMSME	Women Entrepreneur Loan	Women Entrepreneur Lending is a loan program for cottage, micro, small, and medium businesses owned and controlled by women (s). This Term Loan option is available to help you fulfill their working capital needs and/or purchase fixed assets. Loan tenure generally up to 5 years.
	Family Empowerment Credit Program (FECF)	The Family Empowerment Credit Program (FECF) is a set of financial services and assistance for poor and middle-income people, as well as new entrepreneurs, cottage, micro, and small company owners. Loan tenure is up to 13 to 16 months and loan limit ranges from 25 thousands to 25 Lakh Taka.
	Cluster Finance	Bangladesh Finance provides cluster finance, which refers to a sectorial and geographical concentration of businesses, particularly Cottage, Micro, Small and Medium Enterprises (CMSME) that are facing similar opportunities and risks. Loan tenure is up to 60 months including a six month grace period.
	Long Term Loan	Bangladesh Finance encourages cottage, micro, small, and medium businesses by providing a CMSME long-term loan facility, which is designed to help small-scale trading, manufacturing, and service businesses to expand their production/service capacity, purchase machinery, or secure long-term funding.
	Short Term Loan	Bangladesh Finance empowers cottage, micro, small, and medium companies by providing the CMSME short-term loan facility, which is meant to enable small-scale trade, manufacturing, and service initiatives meet short-term cash flow demands, satisfy working capital needs, and bridge any short-term fund-flow shortages.
	Lease Financing	Bangladesh Finance stimulates cottage, micro, small, and medium enterprises by providing a CMSME lease financing loan facility, which is designed to help small-scale trading, manufacturing, and service ventures expand and expand their businesses by utilizing the lease finance opportunity to purchase machineries, vehicles, and commercial spaces.
	New Entrepreneur Loan	This type of loans are solely dedicated to new entrepreneurs of the society. Bangladesh Finance also arranges training program for new entrepreneurs who avail this loan facility. Besides loans up to Taka 10 Lakhs can be availed without keeping any mortgage. Limit of this loan ranges up to 25 Lakhs with a 7% interest rate only.

Retail		
Product & Services		Description
Retail Finance	Home Loan	Bangladesh Finance provides its customers with an appropriate Home Loan facility to enable them realize their ambition of building or owning their own home. Purchase of an apartment or house, self-construction, renovation of an existing house or apartment and commercial space purchase are all covered by this facility. Limit for this loan is up to 70% of the total asset's value and the tenure is generally up to 15 years.
	Auto Loan	Bangladesh Finance provides its customers with an appropriate Auto loan facility to help them realize their ambition of owning a car or vehicle. Purchase of Brand New and Reconditioned Vehicles for Personal Use and Purchase of Brand New and Reconditioned Vehicles for Commercial Use are covered under the Auto facility. Limit for this loan is up to 70% of the total quoted price of the vehicle and the tenure is generally up to 60 months.
	Personal Loan	Bangladesh Finance provides personal loans to its customers in order to help them meet any unexpected financial needs. Personal loans are available for a variety of reasons, including medical emergencies, weddings, vacation, and the purchase of consumer durables.
	Loan Against TDR	Bangladesh Finance also provides depositors with loan options. If depositors are short on cash, they are not required to encash their TDRs early. They may easily take out a loan and use the TDR as collateral. The product is developed in such a way that our depositors may get the loan they need with the easiest method and in the quickest time feasible. Depositors can gain 90% of the value of deposit as loan against TDR.

Table 3: Product & Services of Bangladesh Finance

3.4 Divisional Overview

Corporate Division

The Corporate Division (CD) serves as the "Gateway" to corporate business offers. CD receives corporate business bids from the branches. CD creates a loan portfolio that aligns with the FI's risk appetite statement and develops a strategic plan for company expansion. The economy also provided prospects for growth in a variety of industries, including construction, ICT, and power. CD, as is customary, keeps a skeptical eye out for possibilities afforded by the expanding domestic economy and foreign commerce. CD has earned a reputation for creating appropriate products based on actual consumer needs in accordance with the FI's strategic strategy, credit policies, and business goals.

Strategic Focus

Bangladesh Finance's management spent a year aggressively monitoring loans. They did not engage in aggressive corporate business promotion. With this in mind, CD chose a very selective company marketing strategy based on the customer's quality and reputation. The CD focused on making the best use of loans that had previously been approved. The significance of enhancing the Head of Branch's soft/negotiation skills, as well as training credit officers on assuring the customer credit rating and monitoring it to minimize provision burden on risk weighted assets, were critical elements.

SME Financing Division

Bangladesh Finance's SME Financing Division is one of the company's main divisions. SME Division has been offering financial solutions for SME Finance Division customers across the country since its establishment, all while adhering to the Bangladesh Bank's SME Financing regulatory criteria. Small and medium enterprises (SMEs) are critical to a country's overall economic growth, particularly in a developing country like Bangladesh. Small and medium-sized businesses (SMEs) account for nearly all private sector businesses, and they employ the majority of non-agricultural workers. SMEs generated up to 25% of GDP, accounting for around 40% of gross manufacturing output and roughly 25% of the entire work force. Bangladesh Finance has a specialized SME team that handles all operations related to file preparation, document collection, site visits, verification, credit approval, credit monitoring and recovery, and credit administration for all branches. As a result, the SME portfolio has grown substantially during the previous four years.

Strategic Focus

In the year 2021, Bangladesh Finance Management focused expanding the portfolio in the SME segment by concentrating on diversity of loans among borrowers, businesses, and geographical dispersion, therefore adding particular value to this dynamic area of the economy. SME division of Bangladesh Finance worked constantly with the product development team to create diversified SME product portfolio for fulfilling the dynamic customer thrusts. Bangladesh Finance has a vision to extend their SME exposure up to 45% of their total lending portfolio in the near future. SME division are also apprehensive about providing backward linkage support to SME clients by using their corporate links.

Consumer & Retail Division

The Credit Risk Management Team, Sales Team, and Recovery Team are the three units that make up the Division's operational functionality. The Credit Risk Management Team primarily evaluates proposals received from all branches and sends them to the appropriate authority for approval, listing the applicants' character, ability, capital, conditions, and collateral. The Sales Team is made up of highly trained personnel who are assigned to various locations around the nation and are responsible for locating assets and liabilities accounts from individual consumers. In addition, this team cross-sells asset products such as car loans, home loans, and personal loans to high-net-worth individuals. The Recovery Team is in charge of the division's unique assets. Members of the team keep track of customer repayment and engage with branches and clients to ensure that they are repaid.

Strategic Focus

People's per capita income has been gradually increasing for several years. Due to the expansion of many industries, the country has had extraordinary GDP growth rates in the recent decade, which has resulted in the creation of new jobs. As a result of their increasing wealth, the consumer market of 170 million people now includes more flats, cars, TVs, and air conditioners. In order to react to the needs of its clients, the division has chosen to add another feather to its hat by introducing the "Partnership Sales Network" in 2021. Aside from that, the division is launching a specialized "Retail Asset Officer" to develop a relationship team at the branch level. As a result, the Centralized System will be implemented in a short period of time.

SAM and Recovery Division

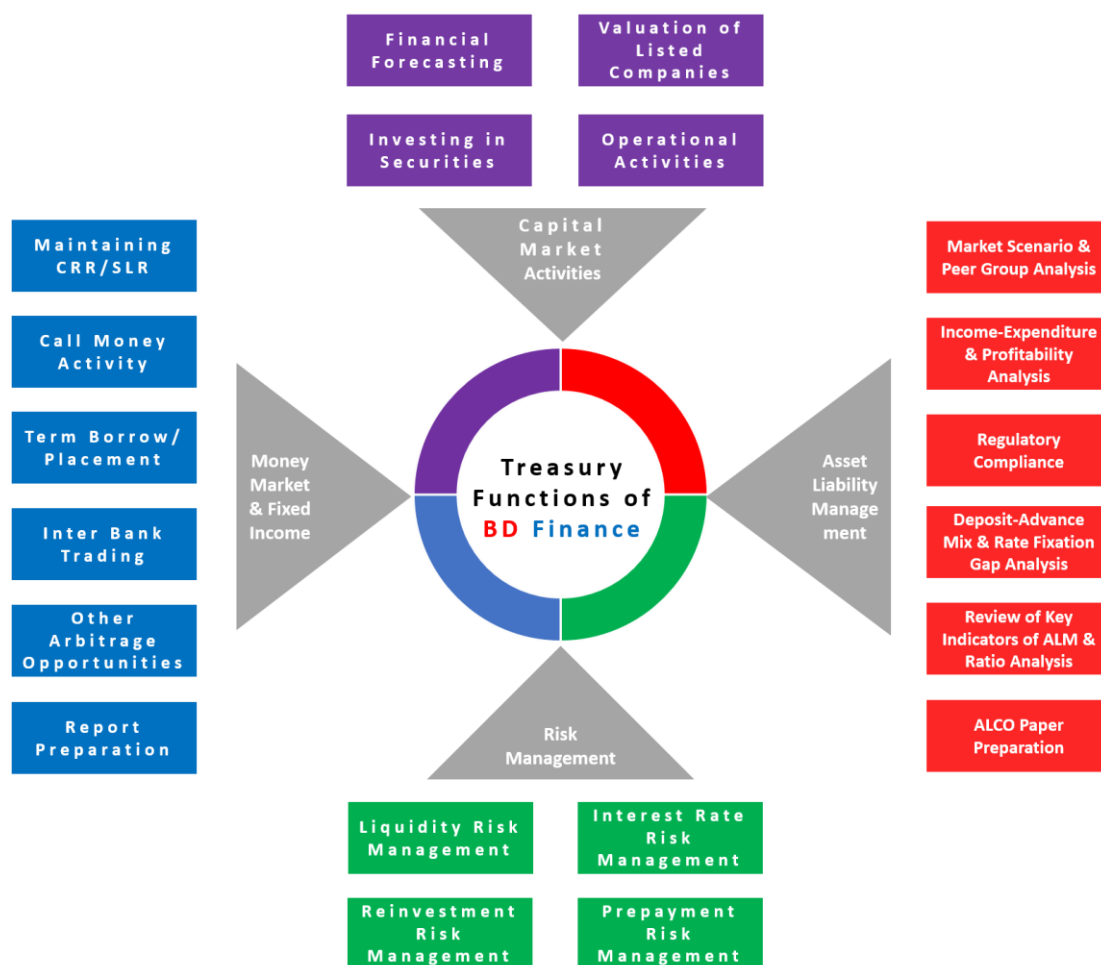
A large number of non-performing loans (NPLs) creates a substantial danger to Bangladesh's economy. NPLs (non-performing loans) have become a major concern for Bangladesh. Given the gravity of this problem, the Bangladesh government has taken a number of steps to minimize non-performing loans (NPL). Non-Performing Loans are also a major worry for Bangladesh Finance (NPL). Bangladesh Finance has strengthened its Special Asset Management (SAM) and Recovery Teams in order to collect the maximum amount of money from non-performing loans as quickly as possible.

Strategic Focus

- Enlisting extra staff to enhance the SAM and Recovery Team.
- To communicate with each and every consumer.
- To recover at least Tk. 20.00 Cr. from the unclassified portfolio per month.
- At least 20% of the existing classified portfolio should be recovered/regularized.
- Recovering/regularizing 75% of the newly categorized portfolio.
- Recover at least 5% of a portfolio that has been written off

Treasury and Fund Management

The treasury department is responsible for fund management, corporate finance, and financial risk management, with the goal of matching assets and obligations in every way feasible. Treasury administration entails a variety of specialized, challenging, and time-consuming responsibilities. In addition, we maintain contact with internal and external stakeholders to guarantee that our business runs smoothly and generates value. Maintaining positive relationships with fund sources, notably investors and shareholders, is also critical for this department.



Credit Risk Management Division

Financial institutions must have strong credit risk management policies and processes that are sensitive to and responsive to the fast-changing, dynamic global economy as well as the rising pressures of globalization. Bangladesh has had strong development in recent years, but the high NPL is posing a huge risk to the economy and financial institutions' financial health and stability. Credit risk management's major purpose is to optimize a financial institution's risk-adjusted rate of return by keeping credit risk exposure within permissible limits. The credit risk and adherence to established controls are monitored by a team of highly skilled workers supervised by Bangladesh Finance Limited's Managing Director and CEO. Bangladesh Finance Limited controls credit risk in accordance with Central Bank guidelines and via Bangladesh Finance's modified pre-sanction and post-sanction loan approval processes and policies.

Strategic Focus

- To comply with Bangladesh Bank rules, Bangladesh Finance Limited has implemented the Credit Risk Grading (CRG) System, a sophisticated and effective grading system for determining a borrower's creditworthiness.
- Bangladesh Finance Limited has begun the process of developing an Environmental and Social Risk Management (ESRM) strategy in accordance with Bangladesh Bank guidelines in order to integrate sustainability into overall credit management.

Financial Administrative Department (FAD)

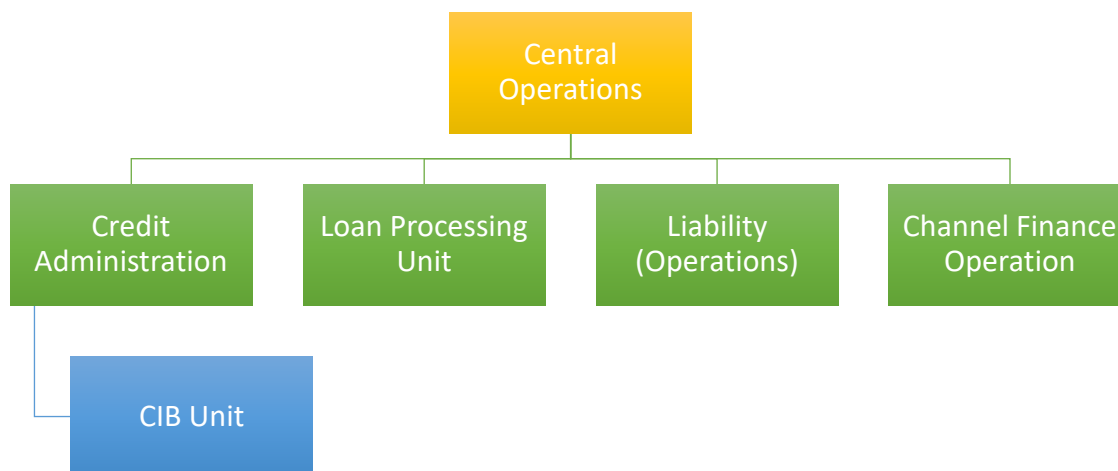
Bangladesh Finance Limited's Financial Administration department has been charged with the task of administering all accounting and financial matters in a disciplined manner. The Department's responsibilities include everything from basic bookkeeping to supplying information to supporting senior management in strategic decision-making. The department is in charge of reporting to the organization's Chief Financial Officer (CFO).

Functions

- **Preparation of Financial Statements:** Preparation of Quarterly/Half Yearly/Annual Consolidated Financial Statements Preparation of Annual Report.
- **Fixed Asset Schedule Management:** Management of Fixed Assets of Different Divisions & branches.
- **MIS:** Monthly Operational Results
- VAT & Tax Management
- Bill Processing
- Chart of Accounts Maintenance
- **Correspondence for Rating:** CAMELS Rating, Entity Rating, Bond Rating
- Bangladesh Bank Reporting

Operations Division

Bangladesh Finance recently implemented Centralized Operations, and it has remained the driving force behind all of the organization's major operational activities since its foundation. Bangladesh Finance personnel have been able to give uninterrupted services to our valued clients as a result of our digitalized centralized processes. Therefore, operating costs reduced while income climbed.



General Service Department

In order to accomplish the institutional aim, the General Services Division (GSD) is a very critical functional component of an organization that constructs necessary infrastructure and offers key support services to all branches and SBUs. The department runs its operations in a positive environment, guided by the Senior Management Team.

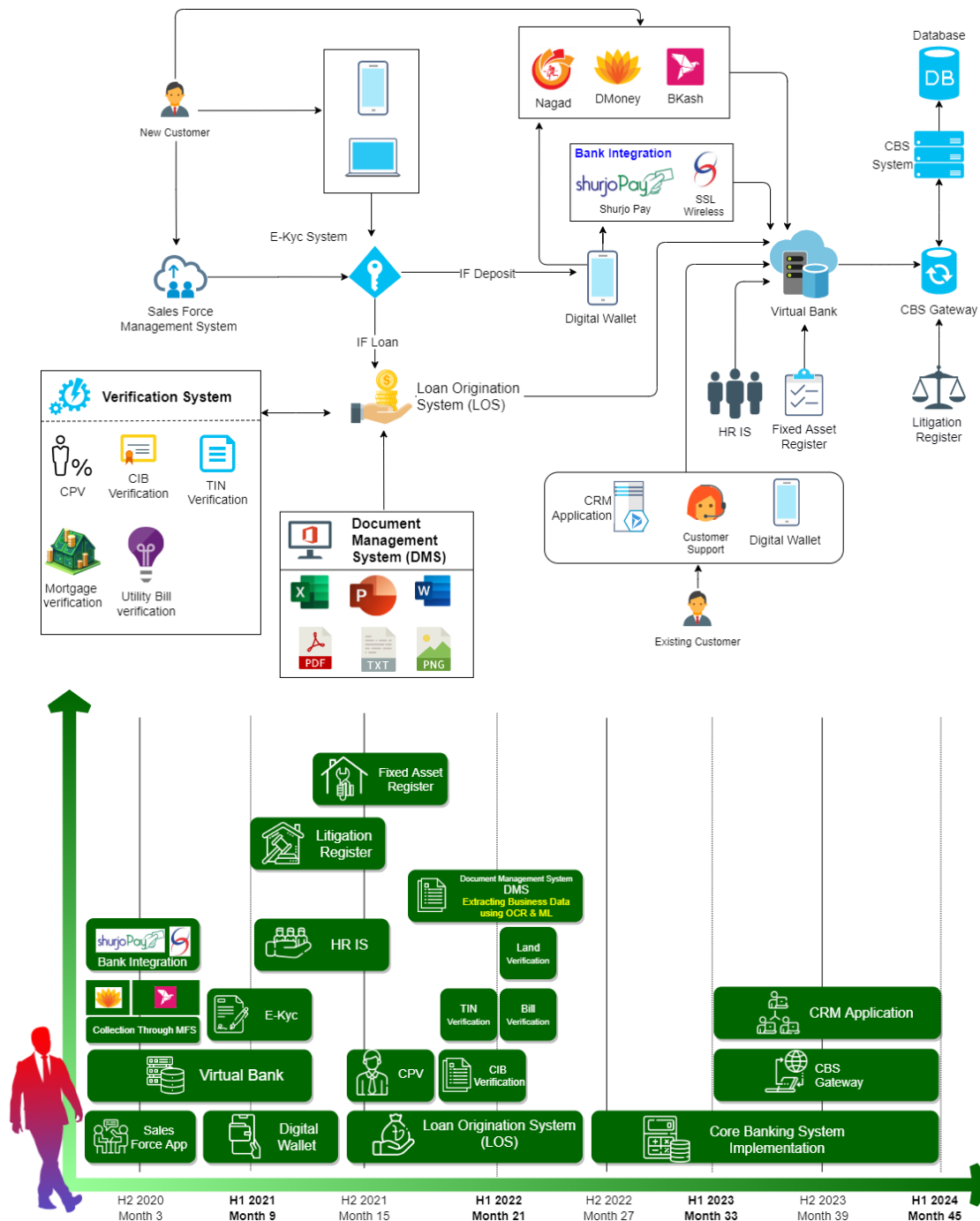
Functions

- Establishing new branches, including interior decoration and associated logistics.
- Printing and distributing all security papers, stationery, forms, and registrations to the branches and Head Office.
- Furniture and fixture purchase and distribution
- Assessing equipment need from branches and divisions and making arrangements for purchase and delivery.
- Installing and maintaining various amenities in the branches with the approval of the appropriate authorities.

IT Division

Information Technology (IT) is driving changes and creating all the distinctions in the business sector, particularly in the financial industry, in this era of digitalization. Bangladesh Finance is constantly pursuing new initiatives to improve operational efficiency by automating and digitizing internal operational processes, introducing new service features in existing financial services for customer convenience and delight, and enhancing IT enabled services to provide comfort to their customers.

Next Five year's journey of Bangladesh Finance towards digitization:



3.5 Strategic Initiatives

Next Five Years Strategic Plan approved on 238th Board Meeting 10th October, 2020:

- a) **Lending Strategy:** Reduce reliance on large loans and instead focus on retail and small business lending, affordable home loans, women banking, green product launching, digital lending, and shifting portfolio mix from corporate 57 percent SME 26 percent Retail 17 percent to corporate 35 percent SME 35 percent Retail 30 percent by 2025.
- b) **Roadmap to sustainable Funding Mix:** By the end of 2025, Bangladesh Finance has planned to reduce dependency on bank borrowing by the issuance of bonds, the collection of foreign funds. Alongside, Bangladesh Finance has planned to change its funding structure from Deposit 42%, Bank Borrowing 58% to Customer Deposit 65%, Bank Borrowing 20%, Other Borrowing (BB Refinance, Bond, Foreign Fund) 15% by 2025.
- c) **Customer Deposit Strategy:** Bangladesh Finance have planned increase customer deposit portfolio by focusing on digital acquisition, small savers, emerging female customers as well as high net worth individuals. Bangladesh Finance recently launched new depository product called “Surokkha”.
- d) **Recovery & NPL management Strategy:** Developed Recovery Guideline, assigning responsibilities, incentives against collection, appointment of recovery agent, reducing NPL to below 3% by 2020 and keeping it below 2% by 2025.
- e) **Dividend and Capital Management Plan:** Dividend payment policy, issuance of subordinate bond, issuance of Right shares, counter party rating for all customers.
- f) **IT Strategy & Roadmap:** Bangladesh Finance Digital Wallet, CRM LOS, Procurement of New CBS.
- g) **Capital market strategy and roadmap:** Development on Capital Market Investment Policy, Launching of Systematic Investment Plan products, Research Team aligning with Subsidiaries.
- h) **Human Capital Strategy & Roadmap:** increase manpower from 132 to 1200 by 2025, local and foreign training for capacity building, employee retention policy.

Introduction of New wings & Division in 2021

Islamic shariah-based wing

Islamic finance has proved to be an enormous growth opportunity for the financial institutions of Bangladesh in past couple of years. Bangladesh Finance has also identified this tremendous opportunity & initiated to open Islamic wing on July 31, 2019. Subsequently, Bangladesh Finance Limited applied to Bangladesh Bank for approval of Islamic Wing on August 20, 2019 and received conditional approval on November 12, 2020 for opening of Islamic Wing. To comply with the conditions of Bangladesh Bank to offer Shari’ah-based products and services across all branches, Bangladesh Finance Limited has already taken several initiative like forming Shari’ah Supervisory Committee (SSC), assigning head of Islamic Finance, planning to arrange sharia based training program etc. This can be considered as putting one step forward towards providing all financial solution under one roof.



Forming Structured Finance Division

Inception of Structured Finance Division allowed Bangladesh Finance to step into the era of architectural Finance. Previously the major source of earning were coming from their lending portfolio. However, this initiative will allow them to implement financial intelligence & enhance their fees based income more than ever. Through Structured Finance Division, Bangladesh Finance Limited acts as Arranger, Financial Advisor and Issue Manager to corporates, financial institutions and public sector enterprises, helping them raise both local and cross border debt and equity financing.

Prospective agreements of structured finance division

Best Electronics Limited

Bangladesh Finance Limited signed an agreement and in process of Issuing & Fund Raising of BDT 800 million as Preference Share to support business expansion of the company.



First Security Islami Bank Limited

Bangladesh Finance Limited signed an agreement and in process of *Issuing & Fund Raising* of BDT 498.09 Crore as Right Share to maintain Tier 1 Capital of the bank as per BASEL III which is fully adopted by Bangladesh Bank. This will facilitate the long term business of the Bank through expansion of its investment portfolio resulting in profitability growth of the Bank.



Kemiko Pharmaceuticals Limited

Bangladesh Finance Limited signed an agreement to provide *corporate advisory* to have a long term as well as short term road map for its Financial Planning. The company wants to raise its required funds through Qualified Investor Offer by Small Capital (QIO)/ On-Shore Issuance of Public, Institutions Securities under public offer as prescribed by the Respective Rules of Bangladesh Securities and Exchange Commission.



Chapter- 4 Fundamental Analysis

4.1 Economic Analysis

4.1.1 Global Economy

The COVID-19 global pandemic impact had a more negative effect on activity in the first half of the FY2020; gross domestic product (GDP) contracted by an estimated -3.5%. The pandemic inflicts high and increasing human costs worldwide as the required precautionary measures severely impact economic activity. While high-income countries' economic situation was depreciating, the low-income countries had faced a severe economic downturn throughout the pandemic. The global economy is convalescing invincibly from the COVID-19 outburst, but the recovery process is dissimilar and uneven amongst countries. The World Bank published report titles "Global Economic Prospect, June 2021" stated that predicted economic growth is 5.6% in FY2021, where it was contracted to 3.5% in FY2020.

Global GDP Growth

According to IMF, World Economic Outlook, 2021, the overall GDP growth of emerging developing Asia is forecasted to be 7.2% in 2021, which is a sign of recovery in contrast with the negative growth(-0.9%) in 2020. The recovery in all developing markets and economies regions is anticipated to be inadequate to reverse the loss from the pandemic. However the recovery is expected to be stronger in East Asia and the Pacific, primarily due to strength in China. In South Asia, India's recovery is being hindered by the largest outbreak of any country since the start of the pandemic. The descending revision for 2021 reflects a downgrade for advanced economies—in part due to supply disruptions—and for low-income developing countries, largely due to worsening pandemic dynamics. Rapid spread of Omicron and the threat of new variants have increased uncertainty about how quickly the pandemic can be overcome. Amid pursued vaccination, economic activity is firming across key advanced economies.

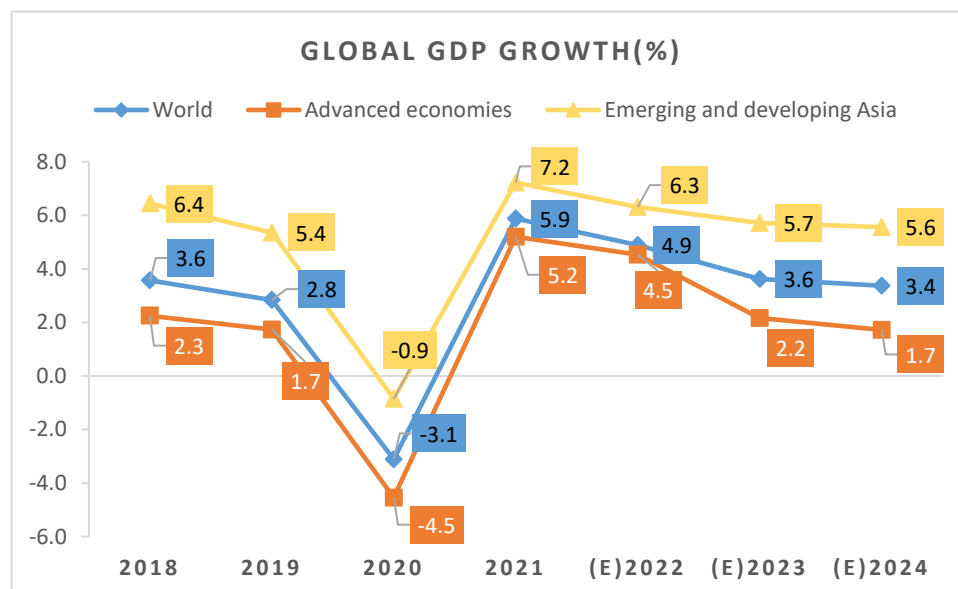


Figure 3: Global GDP Growth (%)

Source: World Economic Outlook, IMF, Oct-21

Global Inflation

In most cases, increasing inflation mirrors pandemic-related supply-demand mismatches and higher commodity prices compared to their low base from a year ago. According to IMF World Economic Outlook, price pressures are anticipated to diminish in 2022. The graphical presentation depicts that the world and advanced economies are facing a higher inflation of 4.35% and 2.76% in 2021 compared to emerging and developing Asia. IMF World Economic Outlook is estimating the overall inflation (world) trend might have a downturn in 2022 to 3.81%, then to 3.30% in 2023, indicating an improvement in global economy.

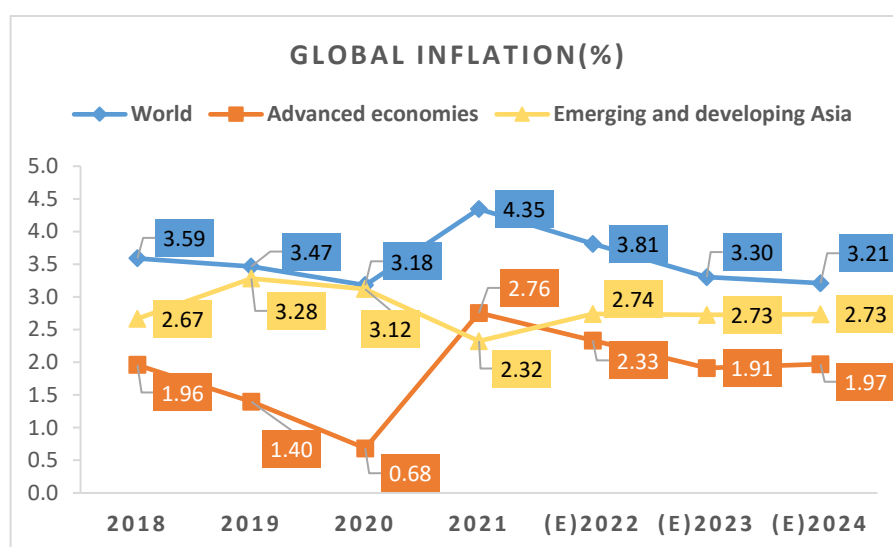


Figure 4: Global Inflation

Source: World Economic Outlook, IMF, Oct-21

Global Commodity Market

The increasing commodity prices are putting an upward pressure on the inflation rates. In 2021, we can see a high peak in global commodity market (metals) to \$ 209.3 USD from \$ 139.8 USD. Moreover, agriculture and oil prices also have a minimum contribution in the upward trend for 2021, respectively. The IMF base metal price index is projected to decrease by 4.5 percent in 2022. In IMF's World Economic Outlook, the projection shows the prices might stay steady in upcoming years.

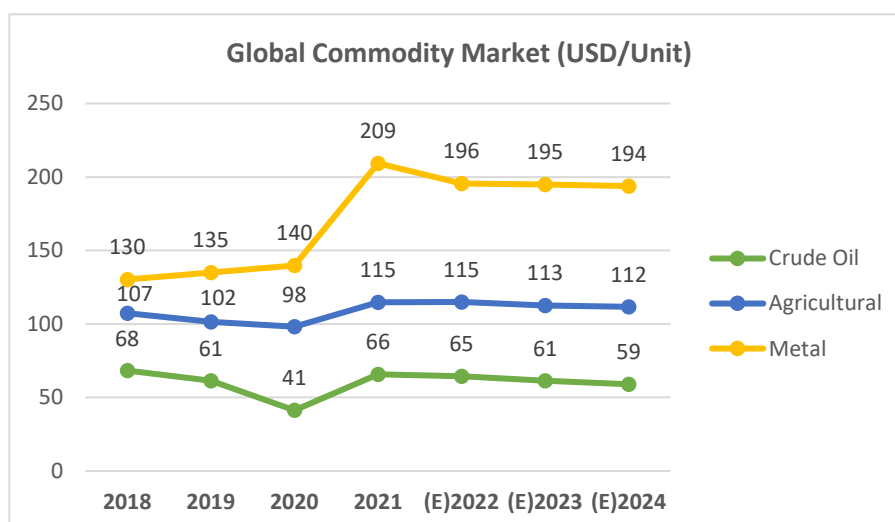


Figure 5: Global Commodity Market (USD/Unit)

Source: World Economic Outlook, IMF, Oct-21

Global Unemployment

According to the International Labor Organization (ILO), the global unemployment rate will be 5.7% in 2022 with estimated 205 million unemployed people around the world, which will continue to be higher than the pre Covid19 numbers of 187 million in 2019.

World Employment & Social Outlook (Trends 2021 report) says that the employment growth will be insufficient to make for the losses suffered until at least 2023. As said by the ILO, global employment recovery is projected to accelerate in the second half of 2021, provided that there is no worsening in the overall pandemic situation.

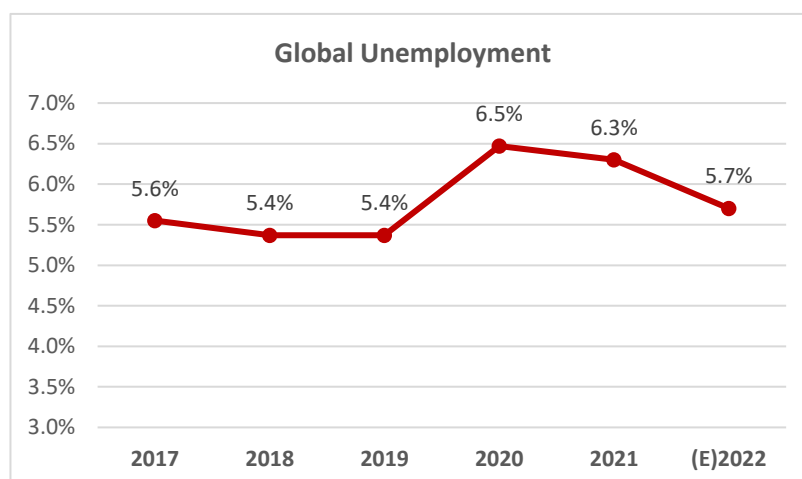


Figure 6: Global Unemployment

Source: International Labour Organization

World Economic Outlook

After year 2020, economic growth has picked up due to the ongoing distribution of effective vaccines and steady resumption of many economic activities, especially in service sectors. In some countries, output has returned to pre-pandemic levels, whereas in others, production and total hours worked have not recovered fully. Rapid recovery in activity has occurred in few emerging-market economies, but in some cases, this has been accompanied by high inflation pressures.

In WEO, IMF has stated that their procurement statistics suggest most of the population in emerging market economies will not be vaccinated before 2022. Inflation is anticipated to go back to its pre-pandemic series in most countries in 2022 once these disturbances work their way through prices, though uncertainty remains high. Elevated inflation is also expected in some emerging market and developing economies, related in part to high food prices. Economies with larger service sectors are also likely to experience vast productivity losses, with a 0.5% reduction in anticipated output in 2022.

4.1.2 Economy of Bangladesh

GDP of Bangladesh

The economic journey of Bangladesh from year 2017-2019 was comparatively outstanding, despite the economic interruption in 2020 due to the coronavirus (COVID-19) pandemic. The real GDP growth uninterruptedly rose from 7.28% in 2017 to 8.2% in 2019. Bangladesh has experienced the highest growth in the history of Bangladesh in 2019, but the impact of the worldwide pandemic crisis has declined the GDP growth of Bangladesh to 3.5% in 2020. According to International Monetary Fund's projection, Bangladesh will have GDP growth of 6.54% in year 2022 & afterwards the GDP will have a steady growth around 7.20% for the next four years.

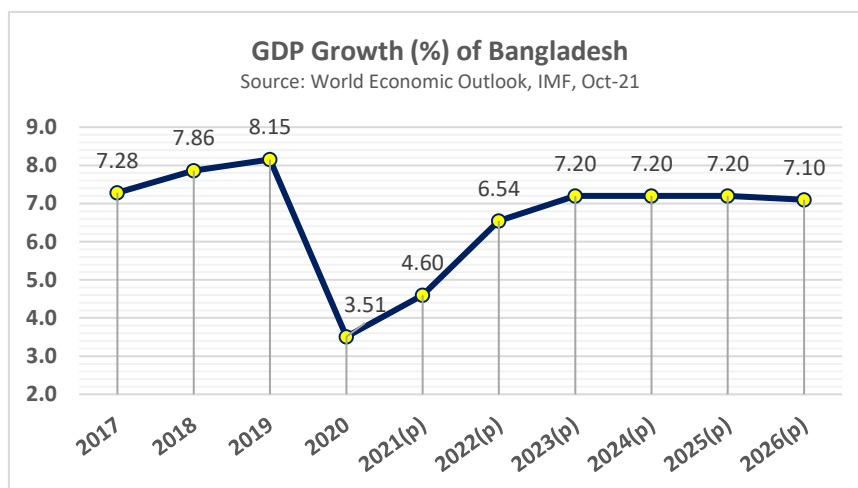


Figure 7: GDP Growth (%) of Bangladesh

Source: World Economic Outlook, IMF, Oct-21

Sector Wise GDP Growth

In FY 2020-21, the growth of the agricultural sector has declined by 1.06%, whereas the industry and service sector appreciated by 3.2% and 1.5%. The contribution of the broad service sector, such as; wholesale and retail trade; hotels and restaurants; transport, storage, and communication; financial intermediations; real estate, renting, business activities, etc., to the GDP stood at 53.6 percent in FY 2020-21. Among service sector utmost contribution came from wholesale & retail trade sector in FY 2020-21.

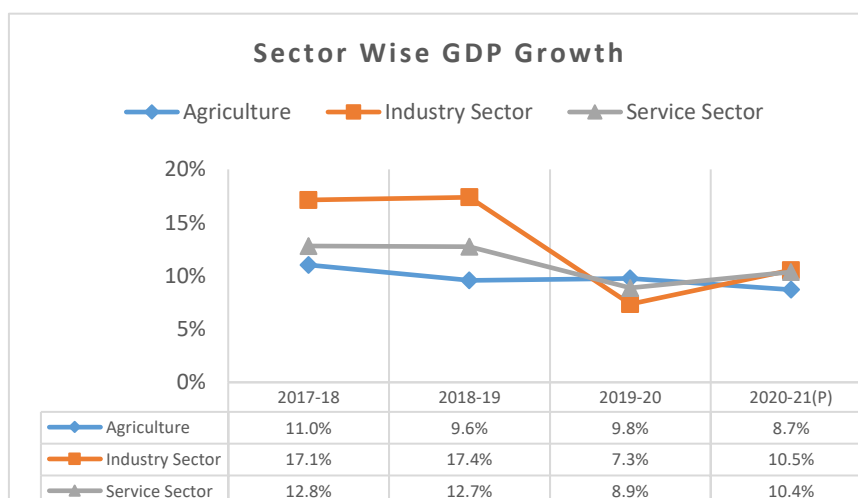


Figure 8: Sector Wise GDP Growth (%) of Bangladesh

Source: Monthly Economic Trend / Bangladesh Bank

Budget at a Glance for FY 2021-22

Bangladesh has presented the largest budget of its history in its 50th year of sustaining as a sovereign nation. The size of the proposed budget for the FY 2021-22 is TK 603,681 crore which is a 6.28% increase from the previous year. It is 17.47% of total GDP & this time we are going to have a deficit of Taka 214,681 crore which is 6.20% of the total GDP & the highest deficit budget in the history of Bangladesh.

Revenue

The lion's share of govt. revenue comes from Tax & a very small portion comes from non-tax revenue. In the fiscal year 2021-22 govt. has expected to have a revenue of Taka 3,890 billion in which Taka 3,460 billion is tax revenue & Taka 430 billion is non-tax revenue. The biggest responsibility for collecting this tax revenue goes to the National Board of Revenue (NBR) which is Taka 3,300 billion, 95% of tax revenue & 85% of total revenue. To deliver this lion's share of revenue NBR has to grow by 9.6% from FY 2020-21 which puts NBR in a challenging position in terms of its tax collecting efficiency.

Expenditure

For FY-22 government has allocated 6,037 Billion Taka for expenditure for development & operational purpose which is a 12% increase from FY-21. Lion's share of total expenditure for FY-22 has been allocated for operating purpose (60%) & 39% is allocated for development purpose. The Annual Development Program is consist of 15 sectors instead of the previously reported 17 sectors. Regarding ADP program Taka 2,253 crore has been proposed for FY22 which is 6.5% of total GDP.

Budget Deficit & Financing

In FY -22 the overall budget deficit increased to 6.1% which is 6.20% of total GDP. To finance for this deficit government has scheduled to raise Taka 977 Billion from foreign borrowing which is 46.3% of total financing & an increase of 42.9% from previous year. According to the government's agenda, lion's portion (53.7%) will be coming from domestic borrowing. Banking institutions will be contributing by providing Taka 765 Billion & NBFIs will provide Taka 370 Billion. Additionally government has projected to receive foreign grants of Taka 35 Billion.

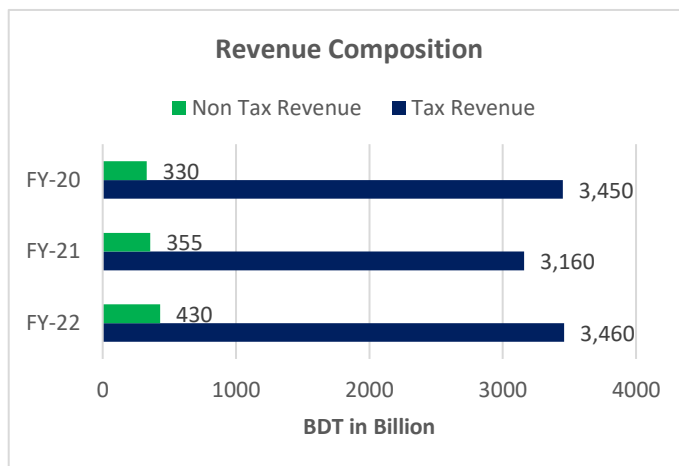


Figure 9: Revenue Composition of Bangladesh
Source: Ministry of Finance (Bangladesh)

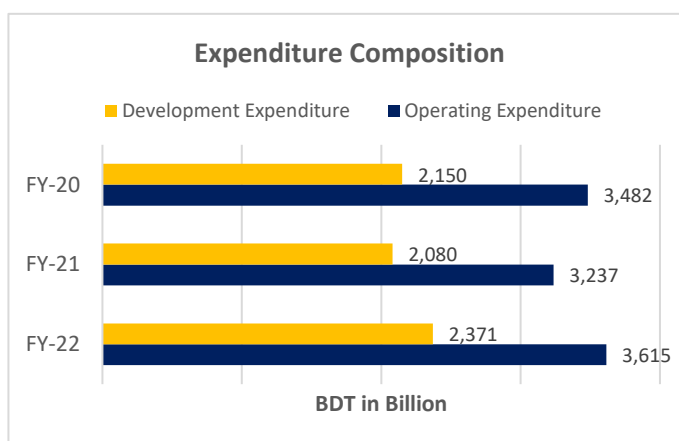


Figure 10: Expenditure Composition of Bangladesh
Source: Ministry of Finance (Bangladesh)

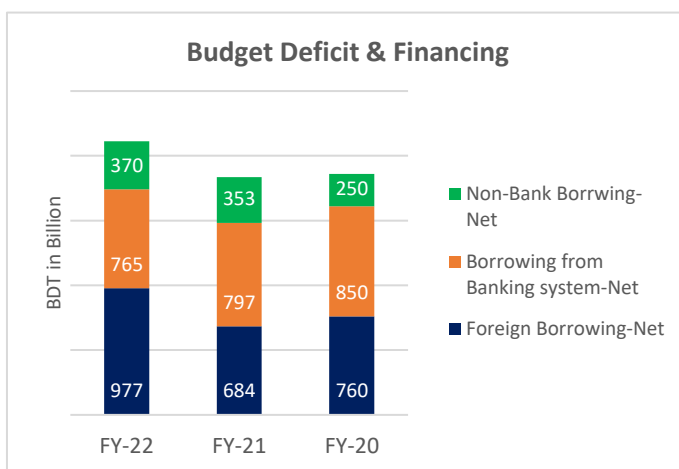


Figure 11: Budget Deficit & Financing
Source: Ministry of Finance (Bangladesh)

Inflation

This chart shows 6 year's historical consumer price (12 month average) inflation pattern & 5 year's projected consumer price (12 month average) inflation rate of Bangladesh. Higher inflation can be caused by high economic growth, as economic growth can lead to higher spending of people. According to the GDP trend economy of Bangladesh is expected to grow in a rate around 7% after 2023 & that can be considered as a high growth rate. However, this chart of ten year 12 month's average inflation trend shows a steady downwards slope after a slight rise in 2023.

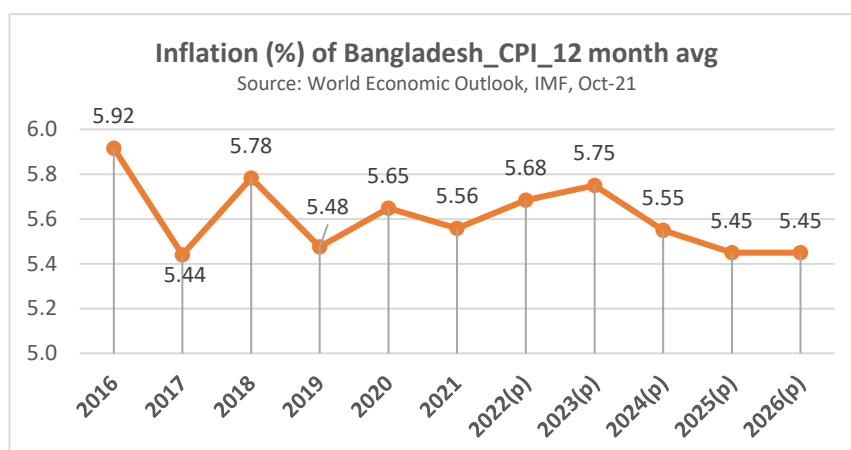


Figure 12: CPI Inflation (%) of Bangladesh

Source: World Economic Outlook, IMF, Oct-21

Export & Import

After dealing with the negative effects of the COVID-19 epidemic, Bangladesh's foreign trade has begun to improve. Total export earnings fell 17.1% to USD 32,832 million in FY 20 compared to the previous fiscal year. In FY 21, export earnings totaled USD 37,882 million, representing a 15.4 percent increase over the previous fiscal year. During this time period, commodity-wise growth in export earnings demonstrates that export earnings from practically all items have increased in comparison to the previous fiscal year. The government has taken several steps including providing cash incentive to encourage exporters. (Source: Bangladesh Economic Review 2021, Macroeconomic Situation).

Total import payments for FY-20 were USD 50,690 million, 8.6 percent less than the previous fiscal year. In FY-21, the country's overall import payments were USD 60,681 million, a 19.7 percent increase over the previous fiscal year's import payments. Up to February of FY -21, 25.91 percent of the total imported commodities came from China. India was the second largest source of import while Japan held the third position. (Source: Bangladesh Economic Review 2021, Macroeconomic Situation).

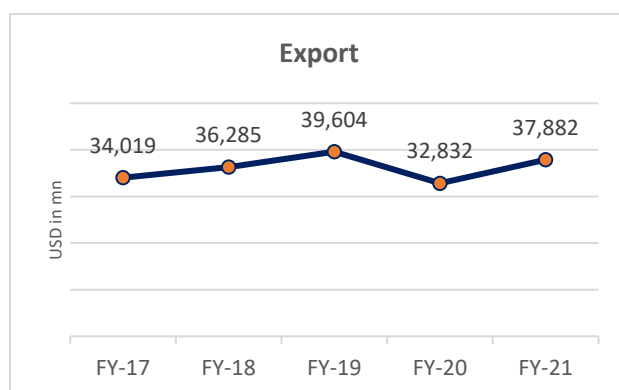


Figure 14: Export Trend of Bangladesh

Source: Monthly Economic Trend – Nov2021/ Bangladesh Bank

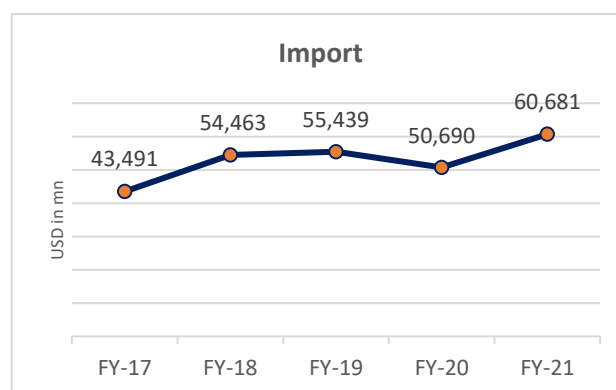


Figure 13: Import Trend of Bangladesh

Source: Monthly Economic Trend – Nov2021/ Bangladesh Bank

Remittance

After a period of stillness caused by the coronavirus epidemic, money transfers through informal channels such as hundi resumed in October, the volume of inbound remittances fell even lower. According to the monthly economic trend published by Bangladesh Bank, at the end of October-21, money sent by Bangladeshi workers from abroad dropped (4.6%) by USD 79 million & became USD 1,647 million from USD 1,726 in September-21. Higher gap between formal banking channel exchange rate of the US dollar against the local currency and kerb market has encouraged illegal hundi activities in recent months.

Foreign Direct Investment

Despite economic growth in Bangladesh over the past decades, Foreign Direct Investment (FDI) has been facing low growth in Bangladesh. According to the Bangladesh Bank's monthly economic trends, the net inflow of FDI stood at USD 1,132 million in the January-June period of the current year (2021), which was USD 1,188 million in the same period in 2020. The government is taking promotional activities like investment summits & roadshows to attract foreign investors however foreign investors are expecting to have more ease of doing business & a stable economic climate. Besides, the ability of least developed countries to handle the upcoming covid-19 waves is also a prime point of concern for foreign investors.

Foreign Exchange Reserve

A foreign exchange reserve displays a nation's backup fund which, can be used during a sophisticated economic situation. Countries try to preserve an increasing growth of foreign exchange reserve as it allows them to retain competitively priced exports, remain liquid in case of crisis, and provide confidence for investors. Foreign exchange reserve stood at USD 46,200 million at the Sep-21 quarter which, was USD 39,314 million in Sep-20. Foreign exchange reserves increased 17.5% in the last four quarters even if forex reserve is under pressure from various dimensions like unabated dollar price appreciation & costlier imports. The foreign exchange reserves increased to a record USD 46,391 million at 30 June 2021.

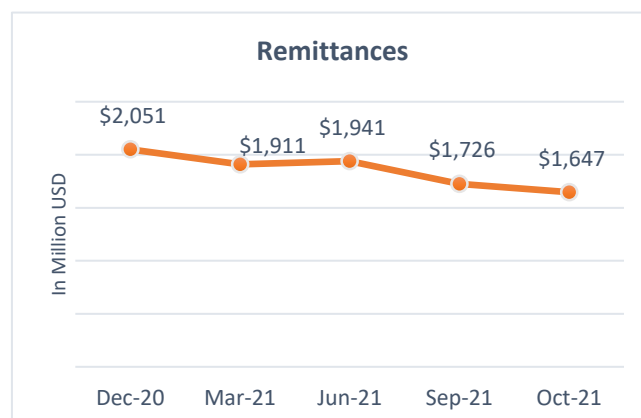


Figure 15: Trend in Remittance of Bangladesh

Source: Monthly Economic Trend – Nov2021/ Bangladesh Bank

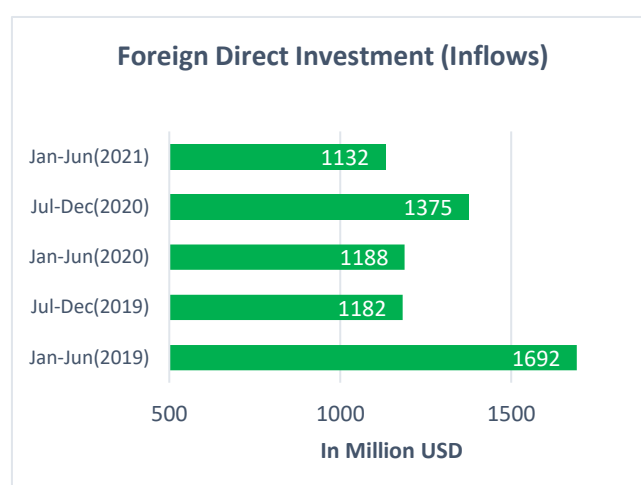


Figure 16 Trend in Foreign Domestic Investment

Source: Monthly Economic Trend – Nov2021/ Bangladesh Bank

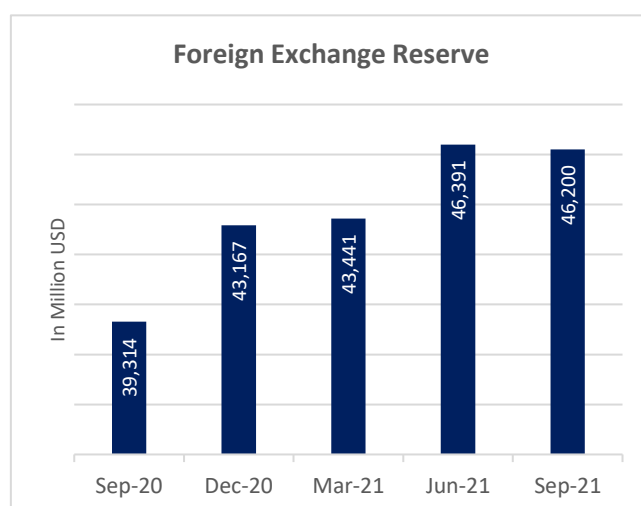


Figure 17: Trend in foreign domestic reserve

Source: Monthly Economic Trend – Nov2021/ Bangladesh Bank

Capital Market Overview

CAPITAL MARKET FACT SHEET									
PARTICULARS	2013	2014	2015	2016	2017	2018	2019	2020	2021
TRADING DAYS	238	238	244	241	247	242	237	208	240
INDEX									
CLOSING INDEX(DSEX)	4,267	4,865	4,630	5,036	6,337	6,318	5,905	5,402	6,757
HIGHEST VALUE	4,440	5,334	4,970	5,036	6,337	6,318	5,950	5,402	7,402
LOWEST VALUE	3,439	4,267	3,960	4,171	5,084	5,204	4,391	3,604	5,083
MARKET INFORMATION									
MKT. CAP (USD MN)	34,055	42,328	40,216	43,471	51,136	46,378	40,198	52,757	63,193
MKT. CAP TO GDP RATIO	25.50%	24.10%	20.60%	16.44%	18.19%	14.67%	11.50%	14.14%	15.56%
DAILY AVERAGE TURNOVER (BDT MN)	4,003	4,994	4,227	4,994	8,727	5,511	4,803	6,489	14,749
DAILY AVERAGE TURNOVER (USD MN)	51.50	62.89	53.80	62.79	105.52	65.99	56.87	76.53	171.90
% OF CHANGE	-2.7%	22.1%	-14.5%	16.7%	68.1%	-37.5%	-13.8%	34.6%	124.6%
TURNOVER VELOCITY	35.9%	36.5%	32.8%	34.9%	51.0%	34.4%	33.5%	30.1%	65.3%
MARKET P/E	15.07	15.69	14.92	15.38	16.92	15.85	13.74	19.18	15.84
SECURITIES LISTED	529	546	559	560	569	578	587	597	616
NO. OF LISTED COMPANIES	256	274	287	294	301	311	320	327	345
NO. OF NEWLY LISTED COMPANIES & MUTUAL FUNDS	14	17	14	11	9	12	10	7	20
CAPITAL RAISED THROUGH IPO (BDT MN)	8,595	9,499	9,775	9,094	3,193	5,810	6,400	8,677	12,790

Table 4: Capital Market Fact Sheet of DSE
Source: Lanka Bangla Finance Ltd. / Research

Despite wrangles between the two regulatory organizations concerned over various policy concerns, the country's capital market had another interesting year, with a 25% return in the core index of the main exchange. The Dhaka Stock Exchange (DSE) also had a decade-high daily turnover value in 2021, as well as an increase in the market cap to GDP (Gross Domestic Product) ratio. In 2021, the average daily turnover was Tk 14,749 million, growing 127% year on year. At the end of 2021, the DSE market capitalization to GDP ratio was 18.01 percent, and the market P/E (price earnings) stood at 15.84.

The market were integrating throughout the year, but the momentum picked up in October. On October 10, the index broke beyond the mental barrier of 7,000 points, reaching a new high of 7,345 points. At the end of 2021, market capitalization stood at USD 63,193 million which is a 20% increase from previous year.

In year 2021, major industries delivered strong gains. The heavyweight banking sector saw a return of 15.2%. Pharma came in second with 14.9 %, followed by telecom (14.4 %), engineering (11.8 %), electricity (9.5 %), and food (9.30 %). NBFIs sector had a return of 4.5% with a market capitalization of BDT 228,583.78 million. In this year, highest amount of capital was raised via IPO in comparison with the last nine years.

Overall the capital market of Bangladesh has passed a good year as it saw rise in index & turnover. Strong participation of investors, higher income of corporations & lower interest rate on deposit played a crucial role behind this rising market. Lower interest rate on deposit compelled potential investors to invest in the stock market. Besides governing bodies have injected a hefty amount of fund bring back the life in the market. However, manipulation by marginal investors is still a concern as stock price of small cap companies rose & fell abnormally.

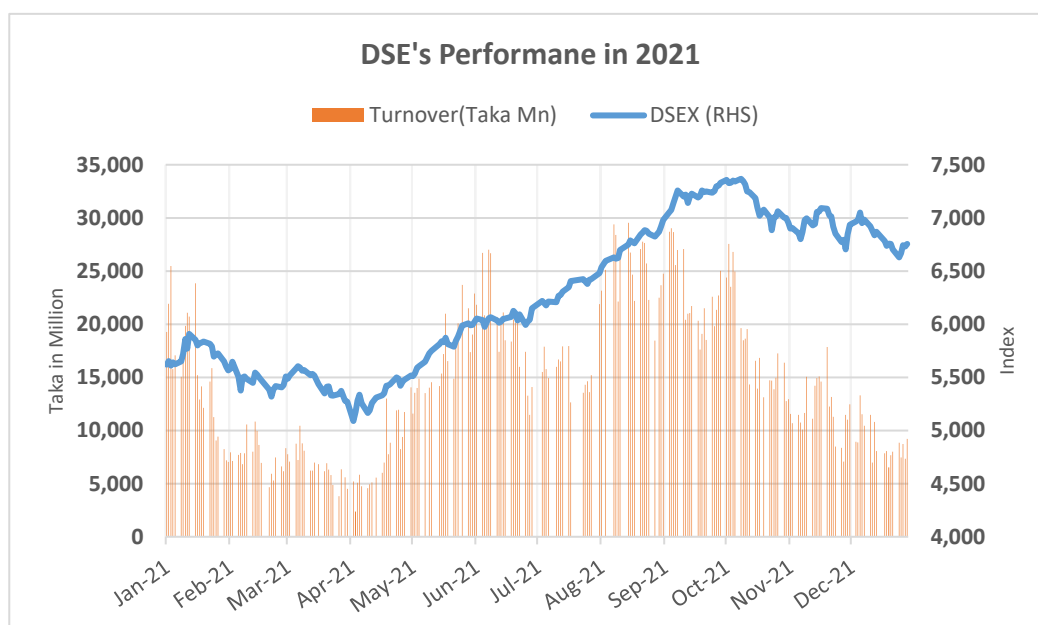


Figure 18: Performance of Dhaka Stock Exchange in 2021

Source: Dhaka Stock Exchange

4.2 Industry Analysis

Structure of NBFIs in Bangladesh

Financial Institutions (FIs) have played a significant role in Bangladesh's financial system alongside banks. Lease finance, term financing, syndicating financing, bridge financing, SME financing, equity financing, merchant banking, and venture capital are just a few of the specialized financial services provided by the financial sector. Bangladesh had 34 financial institutions active as of the end of December 2020, with one in the process of closure. Three (three) of the total 34 FIs are wholly owned by the government, 19 (nineteen) are privately held local enterprises, and the other 12 (twelve) are jointly founded with local and international participation. A total of 277 FI branches were open as of the end of December 2020.

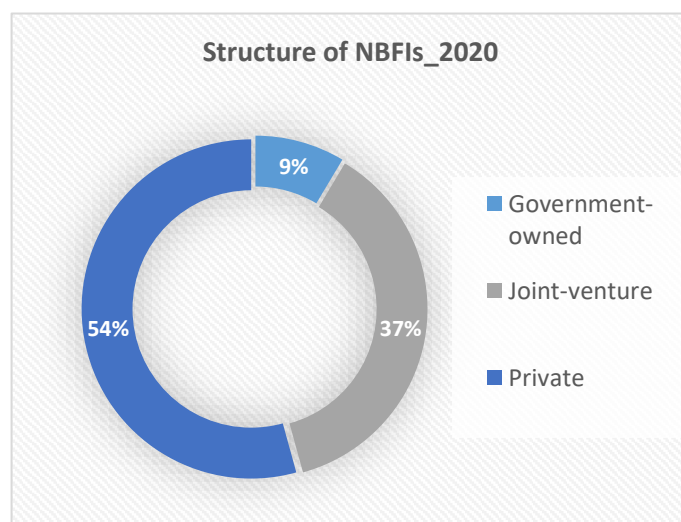


Figure 19: Structure of NBFIs – 2020

Source: Financial Stability Report-2020 / Bangladesh Bank

Growth of Asset & Liabilities

The entire asset value of FIs at the end of June-21 was 917 billion, representing a 1.6 percent increase over the previous year. Total assets were at 902 billion at the end of December-20. The liability & asset ratio reached 90.7 percent, which is 0.8 percent higher than the previous year's figure of 89.9 percent. The FIs' liability-asset ratio is getting high, indicating a lower commitment of equity.

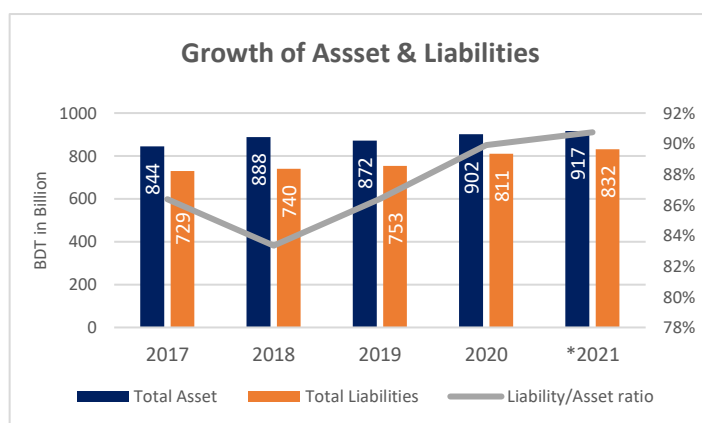


Figure 20: Growth of Asset & Liabilities of Financial Industry

Source: Financial Stability Report (Jun-2021)/Bangladesh Bank

Asset's Composition & growth

Assets of FIs are comprised of cash & liquid assets, earnings asset, fixed assets & other assets. Among those components, the majority contributor is earning assets & it represents 76.9% of total FI's Assets in 2021 (*as of June 2021). The second-largest contributor is cash & liquid assets which, denotes 15.6% of total assets in 2021*. The rest of the 7.5% is represented by fixed & other assets. Cash & liquid assets increased by 8.2% in *2021 from 2020 conversely miscellaneous assets decreased by 3.2%.

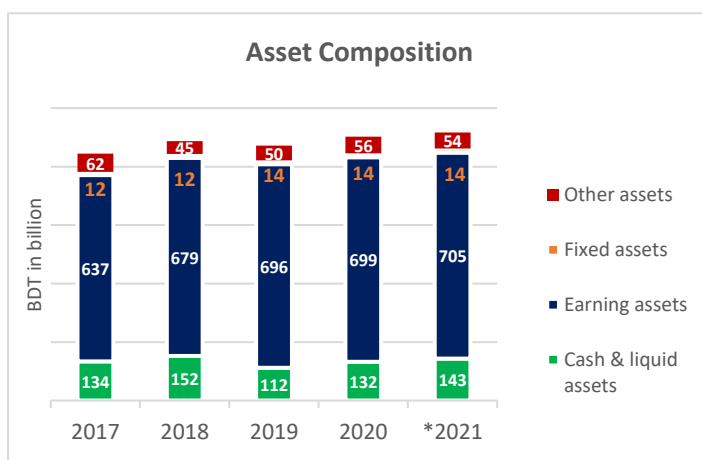


Figure 21: Asset Composition of Financial Industry

Source: Financial Stability Report (Jun-2021)/Bangladesh Bank

Growth of Earning Asset

Total earning asset is contained by loan-lease-advance & investments. In last five years earning assets of FIs are facing steady growth. Loan-lease-advance, investment stood at BDT 705 Billion in 2021 which is a 10.7% increase from 2017 & 0.8% increase from last year. FIs' loans and leases were concentrated in the two major sectors namely the housing sector and trade and commerce sector, which accounts for 18.9 percent and 13.6 percent of total loans and leases respectively.

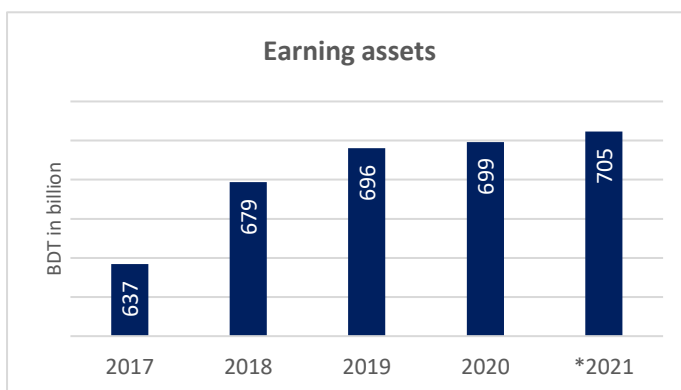


Figure 22: Earning Asset of Financial Industry

Source: Financial Stability Report (Jun-2021)/Bangladesh Bank

Source of Fund: Composition & Contribution

FIs source of funds is comprised of equity capital, deposit, borrowing & other liabilities. As of June-2021, lion's share of funds for FIs is coming from deposits that embrace 49.4% of the total fund. Borrowings & equity capital constitutes respectively 24.7% & 9.3% of total fund. In comparison with the previous year, the stake of borrowing increased by 7.8% whereas depositing, share capital decreased by 0.1% & 6.5% respectively.

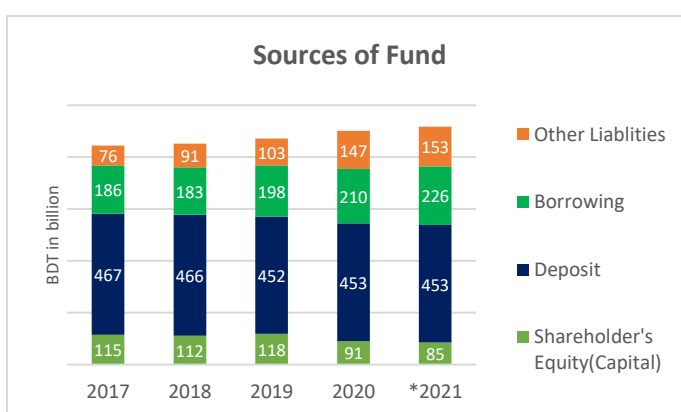


Figure 23: Sources of fund for financial industry

Source: Financial Stability Report (Jun-2021)/Bangladesh Bank

Contribution in components of asset, liability & equity growth from (2020-2021*)

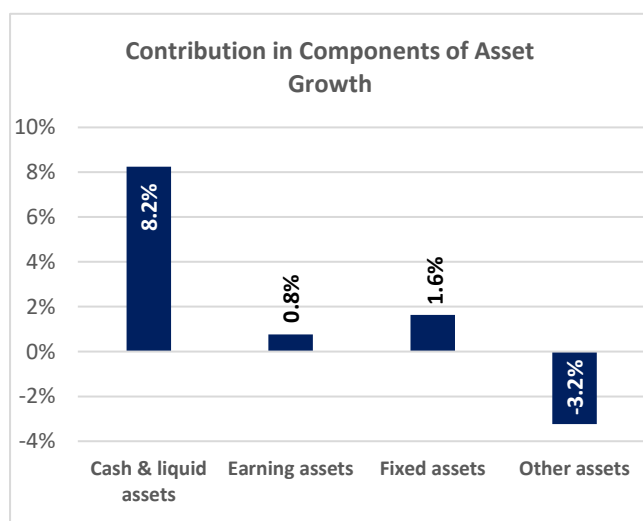


Figure 25: Contribution in components of asset - growth

Source: Financial Stability Report (Jun-2021)/Bangladesh Bank

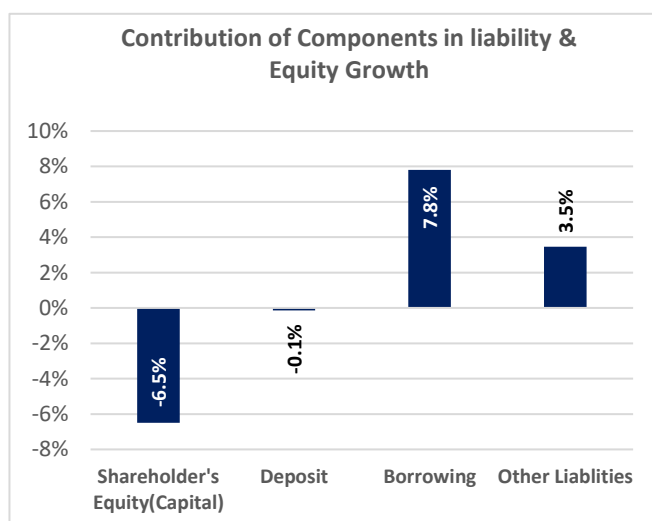


Figure 24: Contribution of components in liability & equity - growth

Source: Financial Stability Report (Jun-2021)/Bangladesh Bank

Interest Rate Movement of FI's

This chart contains interest movement of financial industry for the last ten years. In last ten years interest rate & spread dropped significantly for the financial industry. In FY-19 interest rate spread (2.44%) dropped to its lowest level in previous ten years. Afterwards it started to pick up & in FY-21 the weighted average spread of financial institutions stood at 3.37%. However, at the 3rd quarter of 2021, it started to fall again. This lower spread is indicating towards increased competition in non-bank financial industry.

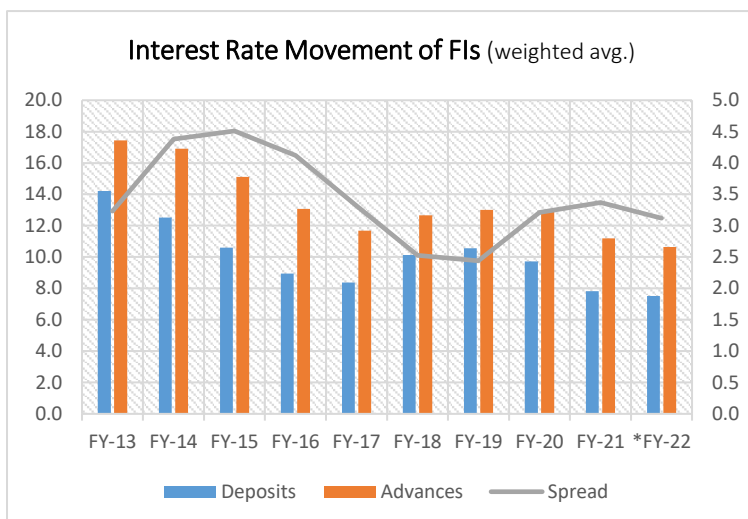


Figure 26: Weighted Average Interest Rate Movement of Financial Institutions

Source: Monthly Economic Trend- *Nov, 2021 / Bangladesh Bank

FIs Performance Indicator

The Return on Assets (ROA) and Return on Equity (ROE) up to June-2021 stood at -0.9 percent and -9.59 percent respectively, compared to 0.4% percent and 3.9% percent recorded in 2020 and 1.5 percent and 10.8 percent in 2019. Financial stability report of Bangladesh Bank, portrays the sharp increase of FIs NPL over past three years. In year 2019 the amount of gross NPL stood at 9.5% & in 2020 the gross NPL stood at 15.0% which is a 5.5% increase. In comparison with 2020 gross NPL increased by 0.4% in 2021.

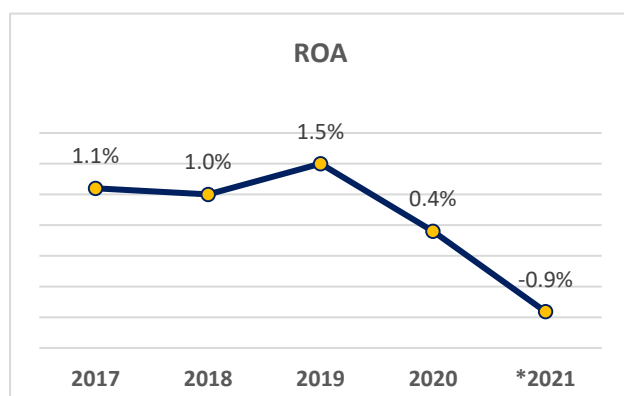


Figure 28: Return of Asset for Financial Industry

Source: Financial Stability Report (Jun-2021)/Bangladesh Bank

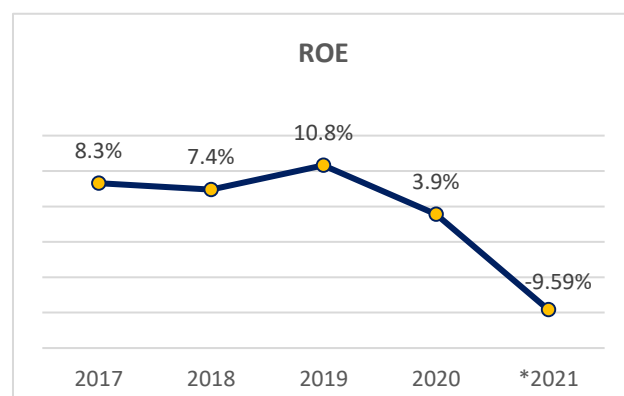


Figure 29: Return on Equity of Financial Industry

Source: Financial Stability Report (Jun-2021)/Bangladesh Bank

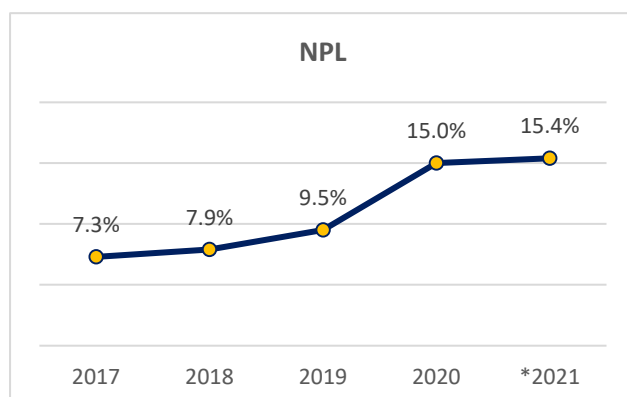


Figure 30: Non Performing Loan of Financial Industry

Source: Financial Stability Report (Jun-2021)/Bangladesh Bank

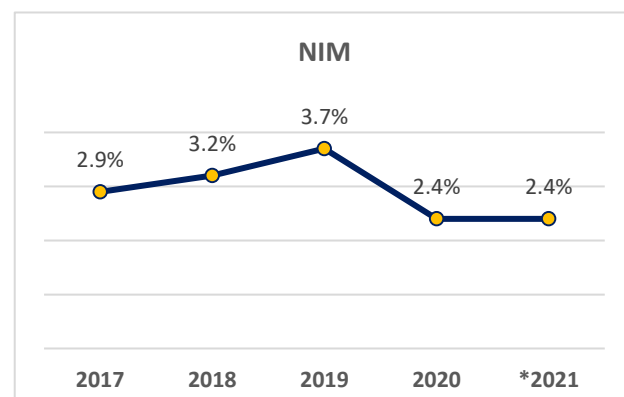


Figure 27: Net Interest Margin of Financial Industry

Source: Financial Stability Report (Jun-2021)/Bangladesh Bank

4.3 Company Analysis

4.3.1 Breakdown of Balance Sheet of Bangladesh Finance

Analyzing the company's financial statements is the initial step of valuing a company. Balance sheets offer insights and understanding about a bank's current financial status and assist decision-making for stakeholders. The asset side of Bangladesh Finance is comprised of cash, balance with financial institutions, loan-lease-advances, investment in securities, fixed assets, non-banking assets & other assets. Deposit, borrowing, other liabilities & shareholder's equity portrays the liability & owners' equity side. Here, my goal is to break down the components & analyze them to understand the historical performance. Thus, I will be able to distinguish the effects of the components among each other & which will lead to realistic assumptions for further valuation.

4.3.1.1 Breakdown of Assets

Lending portfolio:

Lending portfolio is the primary source of earning for any depository financial institution. It also portrays the lion's portion of total asset of a financial institution. Lending portfolio of Bangladesh Finance represents 80% of its total asset. However due to conservative disbursement, lending portfolio of Bangladesh Finance reduced by 3.69% to BDT 12,873.22 million from BDT 13,366.89 in 2020. As of September-2021, lending portfolio of Bangladesh Finance mounted at BDT 13,105 million which is a 2% increase from previous year.

Lending portfolio of Bangladesh Finance is comprised of lease finance, term finance & house building finance. Term loan accounted for the highest (71.0%) in the loan portfolio and stood at BDT 9141 million in 2020. Subsequently house building finance (18.2%), lease finance (10.6%) accounted for the majority portion. In 2020 house building finance stood at BDT 2344 million.

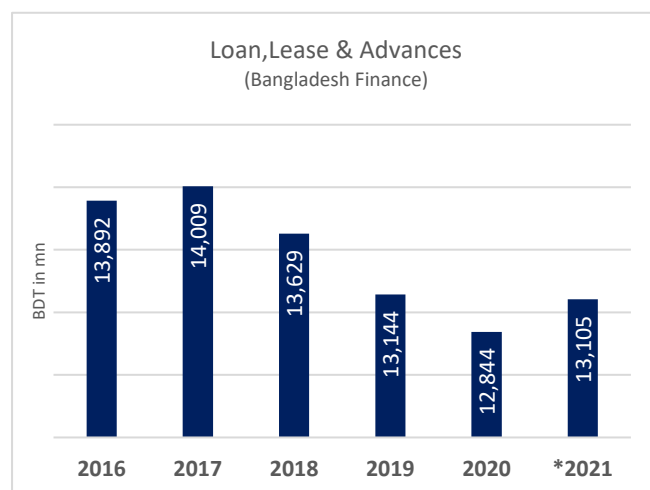


Figure 32: Lending portfolio of Bangladesh Finance

* Up to September - 2021

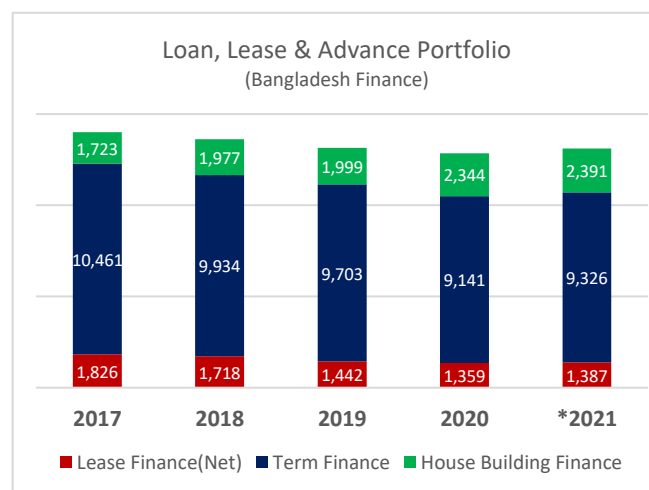


Figure 31: Lending portfolio mix of Bangladesh Finance

* Up to September - 2021

Investment in Securities:

The investment portfolio of the Bangladesh Finance came to BDT 204 million from 274million of 2019, which is 28% percent lower than that of preceding year. This negative position was mainly due to conservative investment during the pandemic period. Conversely due to the ease of post pandemic tension & enthusiastic investors the total investment portfolio of Bangladesh Finance stood at 260 million in 2021 which is a 27% increase.

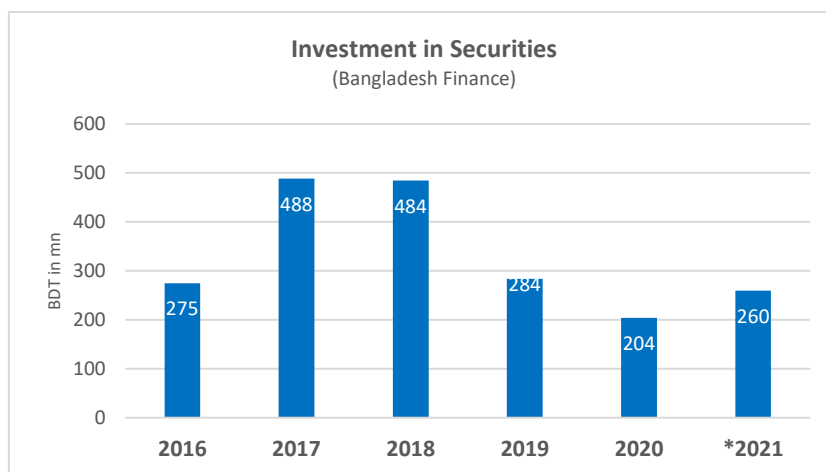


Figure 33: Investment amount in capital market of Bangladesh Finance

* Up to September - 2021

Fixed Asset:

Fixed asset of Bangladesh Finance is mostly consisting of land, building, furniture, office equipment, motor vehicle, intangible assets & right to use assets for lease rent. The primary component of intangible asset is software. According to the IAS-16 property, plant & equipment are stated at cost less accumulated depreciation. The value of fixed asset increased by 30% from 2019 & stood at BDT 524 million. This increase primarily happened due to revaluation surplus of land & building. Besides Bangladesh Finance also purchased furniture, office equipment, motor vehicle & renovated offices. Fixed asset of Bangladesh Finance decreased by 3% at the end of September-2021, as no major capital expenditure took place.

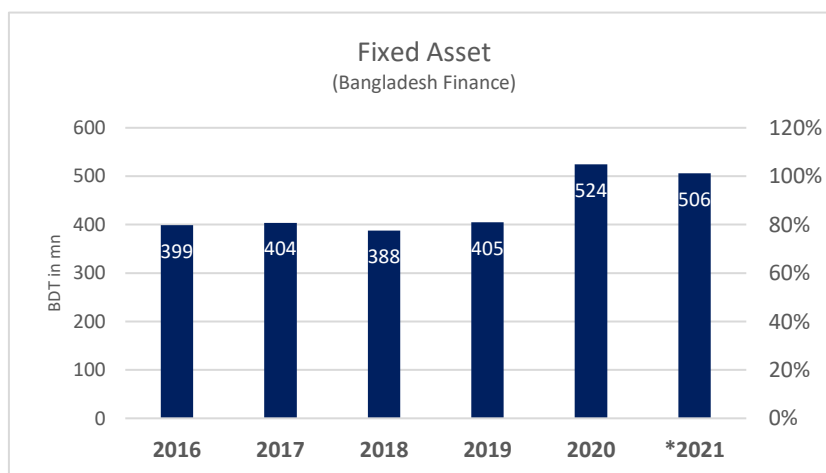


Figure 34: Fixed Asset of Bangladesh Finance

* Up to September - 2021

4.3.1.2 Breakdown of the Funding Sources

Borrowing Mix:

For reducing the cost of funding & maturity gap it's necessary to maintain a right balance between borrowings & deposit. The dependency on bank borrowing has decreased significantly over the past 5 years. At the end of September-2021, bank borrowing stood at BDT 2,457 million and that depicts 17% decrease from previous year. This decrease mostly caused by the 41% decrease in the short term loan. As of September-2021, term loan represents the bigger chunk which is 50% of total borrowing. Short-term loan, call loan & refinancing represents 39%, 8% & 3% of total borrowing mix respectively.

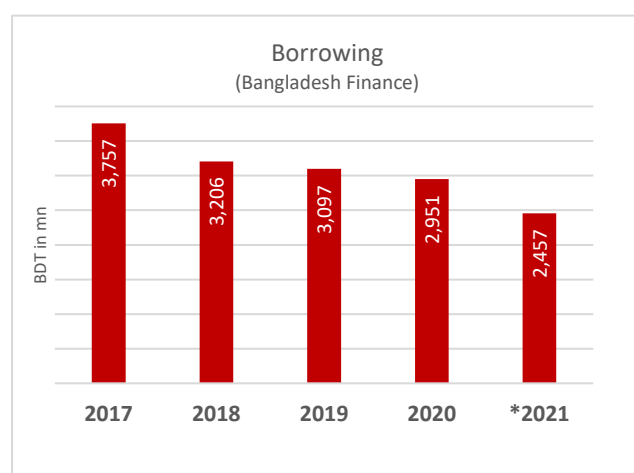


Figure 35 Borrowings of Bangladesh Finance

* Up to September - 2021

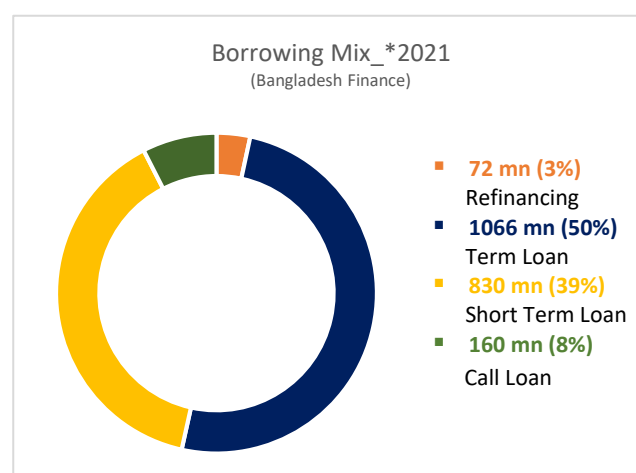


Figure 36: Borrowing mix of Bangladesh Finance

* Up to September - 2021

Deposit Portfolio:

Total depository portfolio of Bangladesh Finance increased by 3% from 2020 to 2021 & stood at BDT 9,325 million. This growth is facilitated by extended branch network, newly launched depository scheme & expected service provided to customers as well as special initiatives carried out for mobilization of cost free and low-cost deposits during the year. The biggest contribution in the depository portfolio came from term deposit which constitutes 97% of total deposit. This increasing growth in deposit portrays the goal of Bangladesh Finance to reduce dependency on borrowed fund.

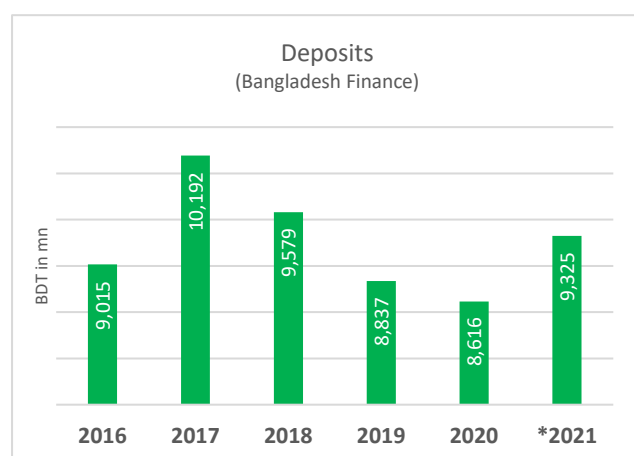


Figure 37: Deposit of Bangladesh Finance

* Up to September - 2021

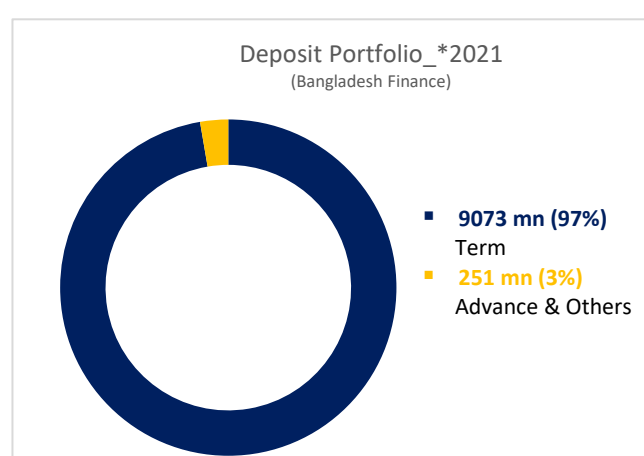


Figure 38: Deposit Portfolio of Bangladesh Finance

* Up to September - 2021

Shareholder's Equity:

Total equity capital of Bangladesh Finance Limited increased by 1% & stood at BDT 2,812 million at the end of September-2021. Increase of total equity capital was mainly impacted by statutory reserve & paid-up capital. In comparison with 2020 paid-up capital increased by 6.0% due to issuance of new share in the market. However, retained earnings decreased by 34.2% due to high dividend payout. As of September 2021, paid-up capital constitutes 63% of total equity capital accompanied by statutory reserve (15%), revaluation surplus (15%) & retained earnings (7%).

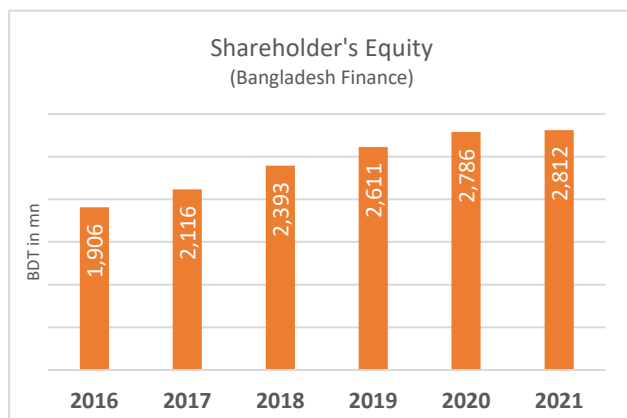


Figure 40: Shareholder's Equity of Bangladesh Finance

* Up to September - 2021

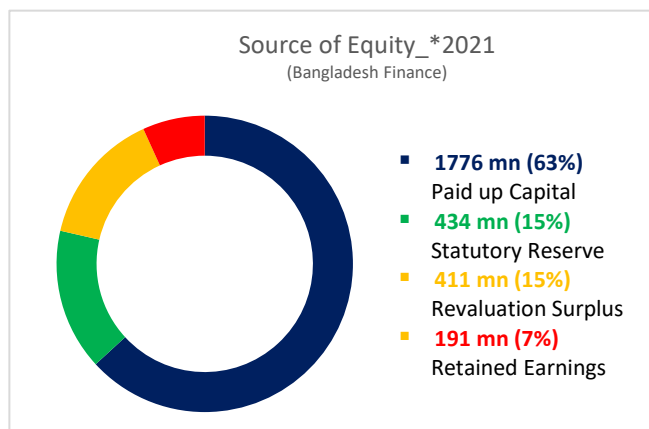


Figure 39: Mix of Shareholder's Equity

* Up to September - 2021

4.3.2 Breakdown of Income Statement of Bangladesh Finance

4.3.2.1 Breakdown of Total Operating Income

Net Interest Income:

Net interest income declined 14.9% from 2019 as loan, lease & advances also declined by 3.7% and negative endowment, associated with the significant interest rate cuts across the markets. Interest income from term finance had a significant fall of 24%. Besides interest from lease finance & deposit also decreased by 8.9% & 15.9% respectively. However interest from housing finance had an increase of 55.2%. Net interest margin (NIM) declined year-on-year from 4.1% to 3.6%.

As of September-2021, net interest income of Bangladesh Finance hoisted at BDT 253 million with a NIM of 2.6%.

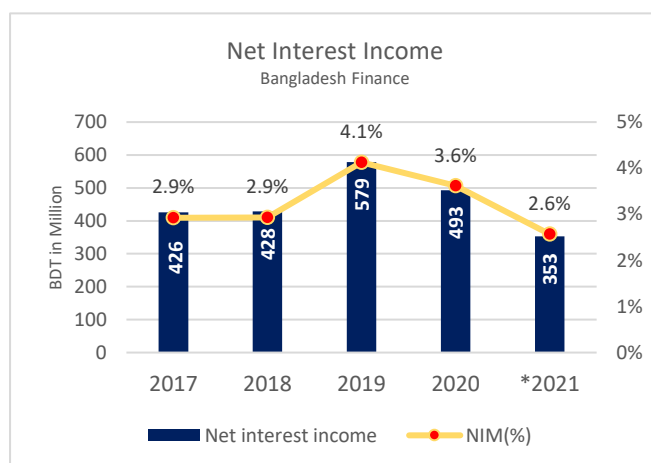


Figure 42: Net Interest Income of Bangladesh Finance

* Up to September - 2021

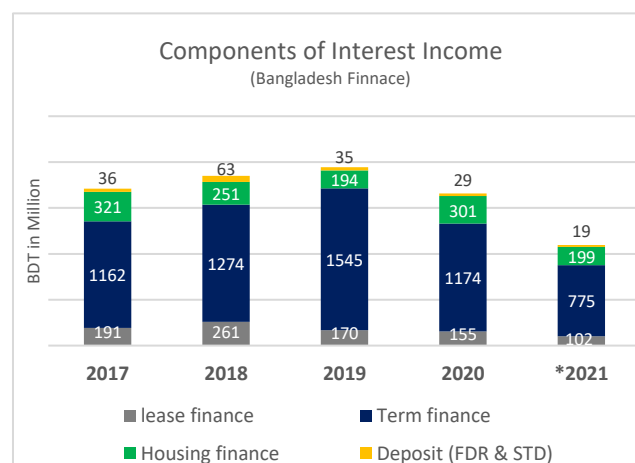


Figure 41: Components of Bangladesh Finance's Interest Income

* Up to September - 2021

Non-interest Income:

Non-interest revenue increased by 7.99 times from 2019 as income from investment & securities has recovered substantially in comparison to the pandemic situation. Whereas other operating income decreased by 76.1%. Income from commission of Bangladesh Finance only consists of 1.2% of total non-interest income which is quite lower. However, an upward push in income from commission is expected at the last quarter of 2021 from the newly opened structured finance department.

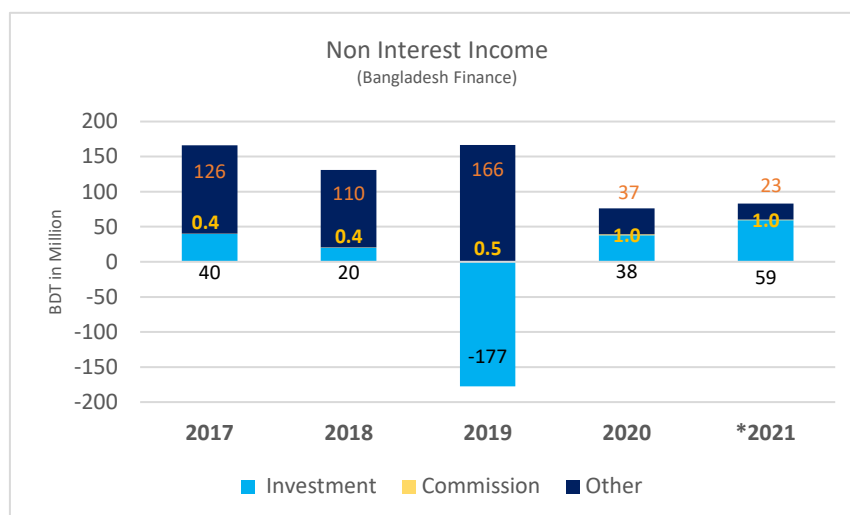


Figure 43: Components of Bangladesh Finance's Non-interest Income

* Up to September - 2021

Operating Expense Breakdown:

Operating expense declined by 14% from 2019 as the major weight, salary & allowance decreased by 9.1%. The group purposefully continued developing and rolling out innovative digital solutions to improve service efficiency and client experience. Consequently cost to income ratio has declined from 38.6% to 32.9%. This decreasing cost to income ratio represents how efficiently Bangladesh Finance handled their operating expenditure. However, at the end of Sept-2021 an upward pressure in cost to income ratio can be observed.

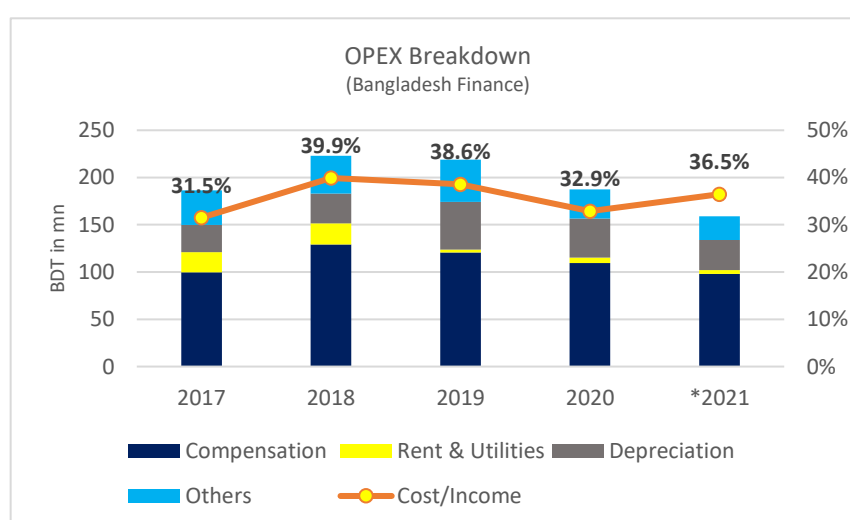


Figure 44: Operating expense breakdown of Bangladesh Finance

* Up to September - 2021

Provision & Taxation:

Provision has been maintained by acknowledging the rules of Bangladesh Bank against classified loans. Provision is a non-cash expenditure which is deducted before taxation. Yearly provision amount portrays the increase or decrease of provision for a particular year. Increase in provision results a deduction from profit & decrease in provision results an increase in profit. Yearly provision amount affects the accumulated provision amount in the liability side of the balance sheet. According to September-2021, Bangladesh Finance is increasing the provision amount by BDT 92 million.

After deducting provision the remaining amount is taxed by following the rules of tax authority. Net Tax expense charged during 2020 were amounted to BDT 119 Million. Effective tax rate on 2021 stood at 44% against 37% in 2020.

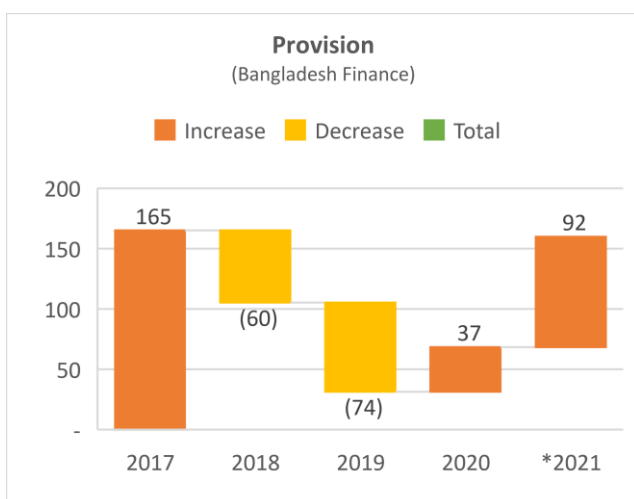


Figure 45: Yearly Provision of Bangladesh Finance

* Up to September - 2021

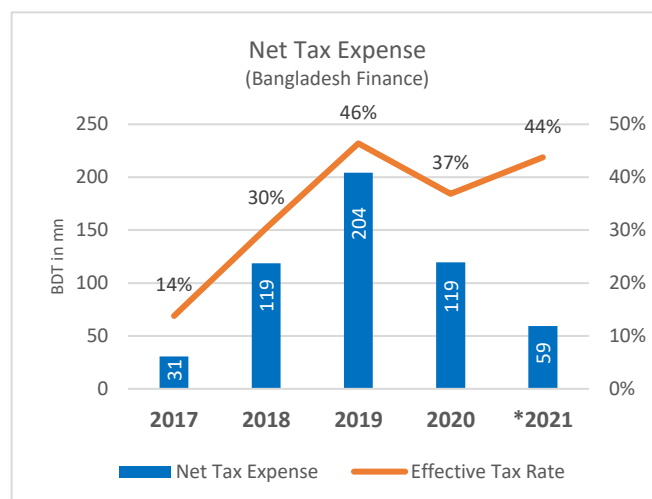


Figure 46: Net tax expense of Bangladesh Finance

* Up to September - 2021

Net profit after tax:

Instead of a huge decrease of net interest income in 2020, Bangladesh Finance managed to get an increase of 3.5% in net profit. Controlled operating expense & increased non-interest income was the key contributor behind this increasing net profit. Besides lower income tax expense also boosted the profit significantly.

As of September-2021, net profit of Bangladesh Finance stood at BDT 126 million.

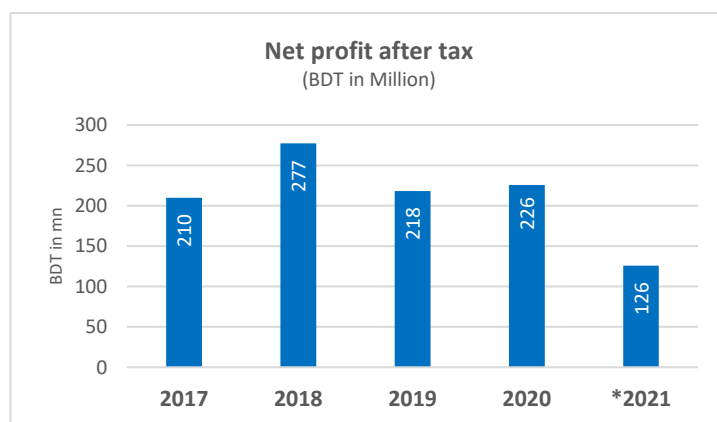
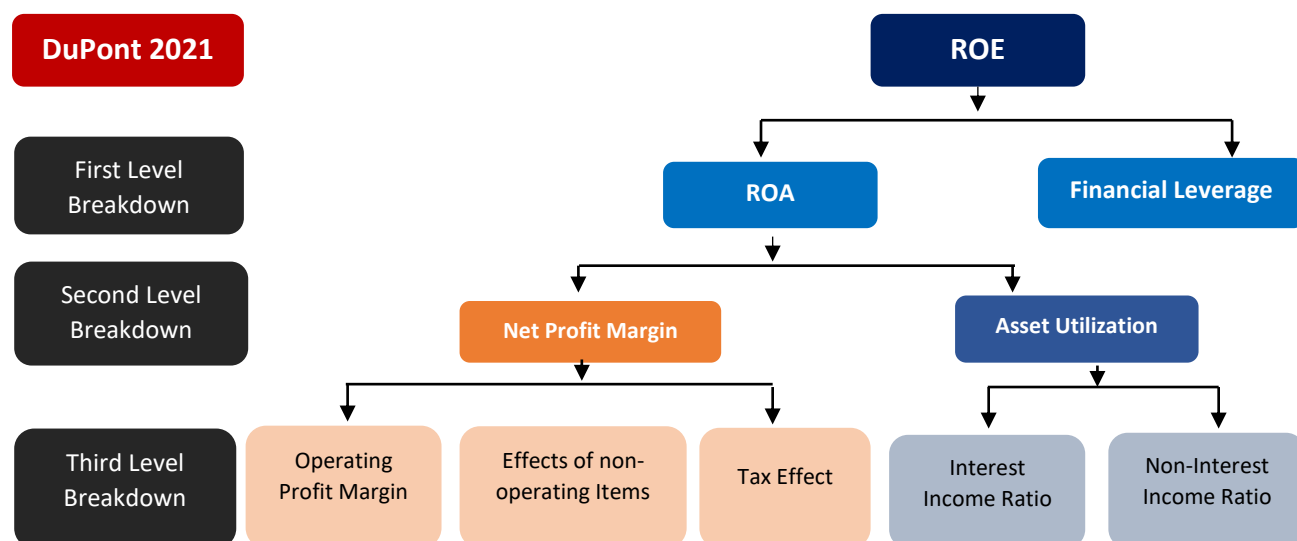


Figure 47: Net profit after tax

* Up to September - 2021

4.3.3 Profitability

DuPont



DuPont Analysis of Bangladesh Finance							
SL	Ratio	Description	2017	2018	2019	2020	*2021
1	Interest income ratio	% of average asset	2.43%	2.41%	3.45%	3.09%	2.18%
2	Non-interest income ratio	% of average asset	0.95%	0.73%	-0.06%	0.48%	0.51%
3	Asset Utilization	% of Avg. Assets	3.38%	3.14%	3.38%	3.57%	2.70%
4	Operating Profit Margin	% of total operating income	68.49%	60.10%	61.43%	67.11%	63.52%
5	Effects of Non-operating Items	% of total operating income	27.89%	-10.71%	-13.01%	6.50%	21.02%
6	Tax Effect	% of total operating income	5.16%	21.23%	35.98%	20.97%	13.60%
7	Net Profit Margin	%of total operating income	35.44%	49.57%	38.45%	39.65%	28.90%
8	ROA	(Net Profit Margin*Asset Utilization)	1.20%	1.56%	1.30%	1.41%	0.78%
9	Financial Leverage	Avg. Asset / Avg. Equity	8.71	7.90	6.70	5.92	5.77
10	ROE	(ROA * Financial Leverage)	10.43%	12.30%	8.72%	8.37%	4.50%

Table 5: DuPont analysis of Bangladesh Finance

DuPont analysis breaks down the ROE into three level and this break down provides a convenient and systematic method to identify strength and weakness of FI's profitability. Generally, stockholders of FIs expect a higher ROE however an increase in ROE can simply result from an increase in financial leverage or from an increase of ROA. Identifying the source of increasing ROE is critical. An increase of ROE due to increase in financial leverage indicates towards increasing solvency risk.

FI's asset utilization ratio portrays how efficiently the FI has used its asset to generate their operating revenue. Asset utilization consists of two components namely interest income ratio & non-interest income ratio. In 2019, Bangladesh Finance had a negative non-interest income, however higher interest income ratio of 3.45% lead to increased asset utilization ratio of 3.38% from previous year 2018. At the end of 2020, asset utilization ratio increased to 3.57% & key contribution behind this increase was improved non-interest ratio of 0.48%. As of September 2021, asset utilization ratio stood at 2.70%.

Net operating profit margin explains how efficiently company has turned his operating income into net profit. In other words, how efficiently, they have handled their operating & non-operating expenses. Net profit margin consists of three components namely operating profit margin, effects of non-operating items & tax effects. In 2020, net profit margin of Bangladesh Finance increased by 1.20% & stood at 39.65%. This increase primarily caused by increased operating profit margin which reflects efficiency in controlling operating expenses of Bangladesh Finance. Besides decreasing tax effect also contributed towards higher net profit margin. As of September 2021, net profit margin of Bangladesh Finance stood at 28.90%.

Higher ROA indicates that the financial institution is more efficient & productive in managing its balance sheet. ROA of Bangladesh Finance increased by 0.11% from 2019 & became 1.41% at the end of 2020. This increase of ROA was primarily mobilized by increased operating profit margin.

At the end of 2020, the ROE of Bangladesh finance stood at 8.37%, correspondingly the financial leverage is going down, however ROA is facing an increasing trend. That depicts a strong contribution of ROA in increasing ROE & financial soundness of Bangladesh Finance Limited. As of September 2021, ROE of Bangladesh Finance stood at 4.50%. So far significantly lower net profit margin is holding the ROE back.

Interest earning assets & interest-bearing liabilities:

Interest earning asset of Bangladesh Finance consists of two components, namely lending portfolio & balance with other banks & FIs. Correspondingly, interest earning liability of Bangladesh Finance represents the depository portfolio & Borrowings from other banks & financial institutions. As of September 2021, interest earning asset of Bangladesh Finance increased by BDT 378 million which is a 2.8% increase from previous year. Interest bearing liabilities also increased by 1.9% & stood at 11,781 million. According to the end of September 2021, Bangladesh Finance has a positive gap of BDT 2,132 million which indicates towards the probability of increasing profit if the interest rate rises.

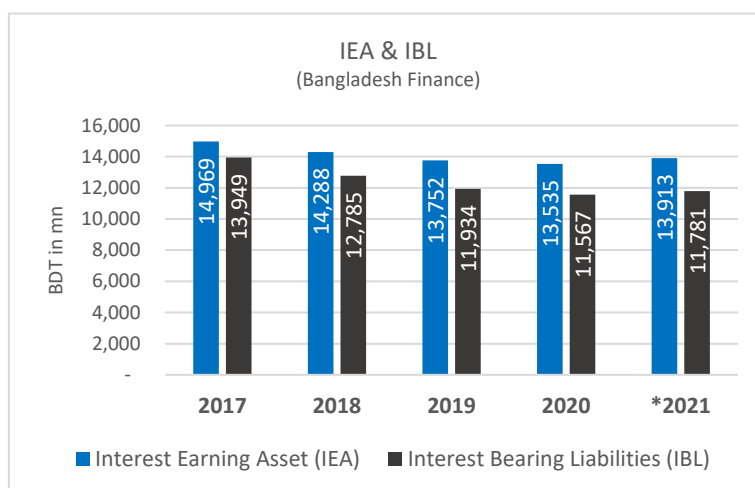


Figure 48: interest earning assets & interest bearing liabilities of Bangladesh Finance

* Up to September - 2021

Yields:

The yield on earning assets ratio compares an entity's interest income to its earning assets, and it is a financial solvency ratio. Higher yields portray FI's efficiency in bringing a large amount of income from its lending & investment. Net interest spread represents the gap between yield to IEA & cost to IBL, which in fact means the profitability of financial institutions. After 2019, due to the decreased interest rate & Covid effect Bangladesh Finance is facing downwards trend in yield, cost & spread.

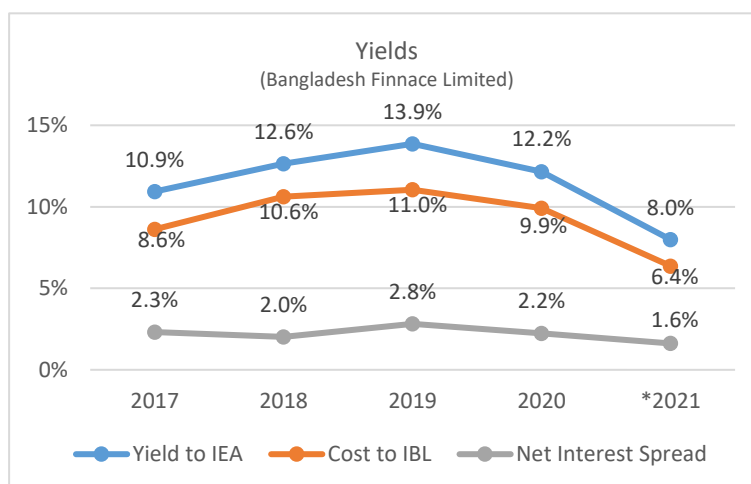


Figure 49: Yields of Bangladesh Finance

* Up to September - 2021

5.3.4 Efficiency

Cost to income ratio represents how efficiently a financial institution maintains its operating expense which generally includes salary expense, rent, utilities & depreciation. As of December 2020, cost to income ratio dropped by 6% and stood at 33%. However, as of September 2021, C/I ratio have seen an upward push. Burden coverage ratio reflects the ability of non-interest income to pay off the operating expense. Due to the impact of Covid, Bangladesh Finance had a negative gain from investment in securities at the end of December, 2019 & that negative burden coverage ratio of -5%. However, an upward trend started after that period.

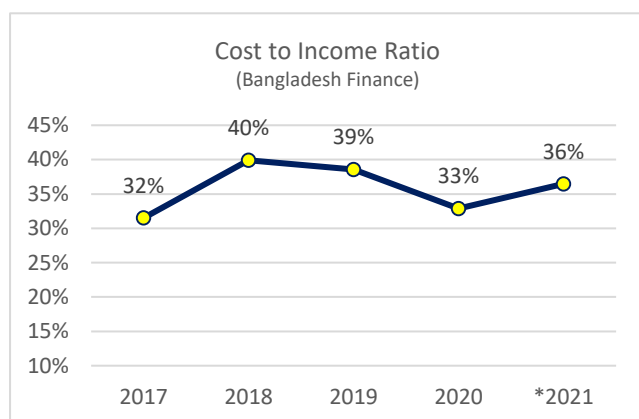


Figure 50: Cost to income ratio of Bangladesh Finance

* Up to September - 2021

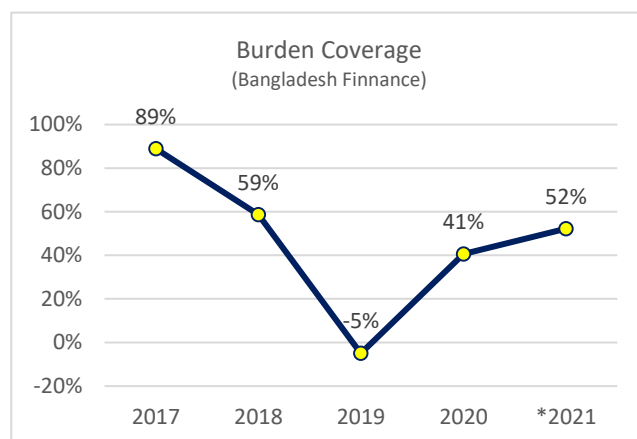


Figure 51: Burden Coverage ratio of Bangladesh Finance

* Up to September - 2021

4.3.5 Asset Quality

Non-performing Loan: By following the regulatory guideline of Bangladesh Bank, FI classifies the loan into three criteria- substandard, doubtful, bad & loss. Basis of classification varies with the loan criteria. For continuous loan if the amount gets due for more than 3 months but less than 6 months, it will be considered as substandard. "Doubtful" if overdue for more than 6 months & "Bad & Loss" if overdue for more than 9 months. Classified amount of Bangladesh Finance has decreased significantly over the last five years. As of September-2021, classified amount of Bangladesh Finance stood at BDT 332 million which is a 61% decrease from the year 2017. Correspondingly non-performing loan of Bangladesh Finance is also decreasing significantly.

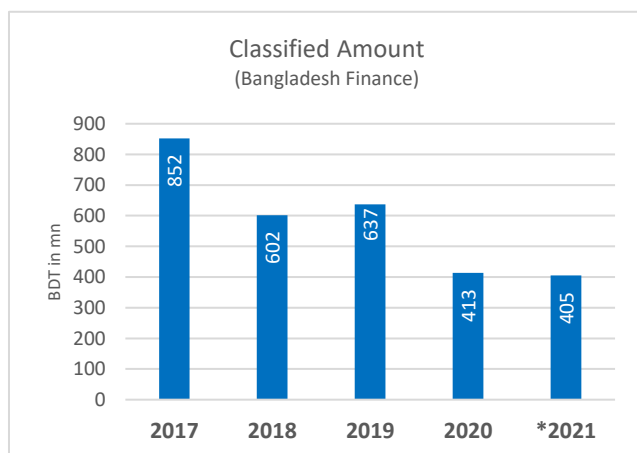


Figure 52: Classified amount of Bangladesh Finance

* Up to September - 2021

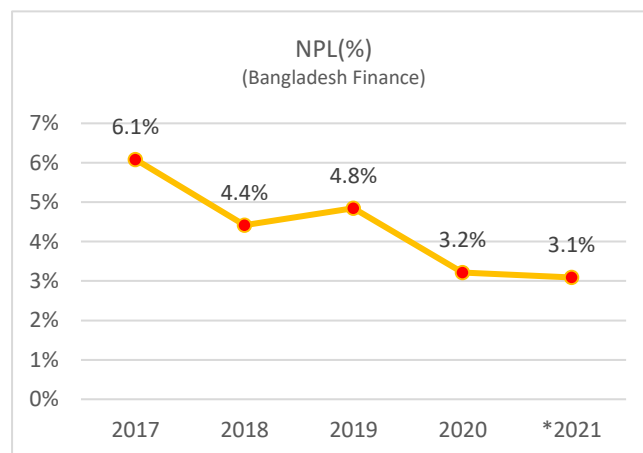


Figure 53: Non performing loan (%) of Bangladesh Finance

* Up to September - 2021

Non-performing Loan Coverage:

Provisioning of financial institutions can be categorized into two criteria: general provisioning & specific provisioning. Different weightage is allotted for different criteria. Generally financial institutions are expected to have a non performing loan coverage ratio of more than 100% which portrays the ability to fight against the expected losses. At the end of 2020, NPL coverage ratio of Bangladesh Finance became 103% which is a 42% increase from previous year.

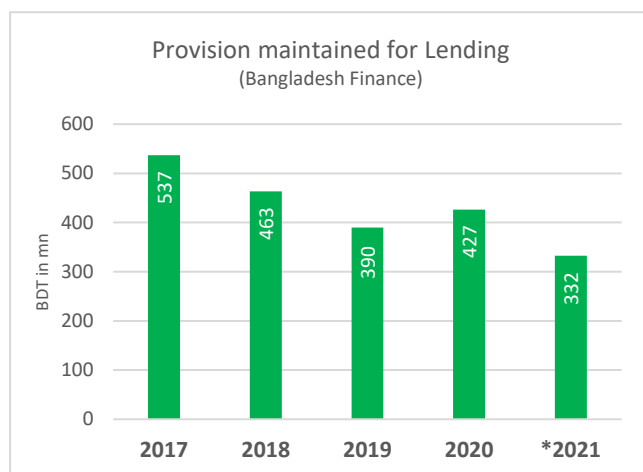


Figure 54: Yearly maintained provision of Bangladesh Finance

* Up to September - 2021

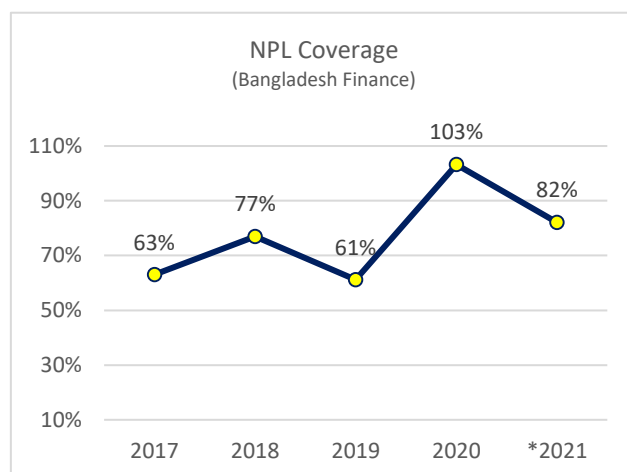


Figure 55: NPL coverage ratio of Bangladesh Finance

* Up to September - 2021

Loan to Deposit ratio & Liquid Asset:

This ratio is a widely used metric for evaluating liquidity and credit risk, and it is calculated by dividing a bank's total loans or total financing by its total deposits. It reflects the percentage of a bank's loans that are funded by deposits. As a result, a larger loan deposit ratio signifies more financial stress due to issuance of too many loans. Bangladesh Finance has a high loan to deposit ratio (145%) which portrays high financial stress.

Liquid asset ratio represents FIs ability to repay its current liabilities. After 2017 liquid asset ratio of Bangladesh Finance plummeted to 3.9% from 6.3%. However, after that period liquid assets of Bangladesh Finance are growing. As of September-2021, liquid asset ratio stood at 5.2%, which means 5.2% of their assets can be considered as liquid.

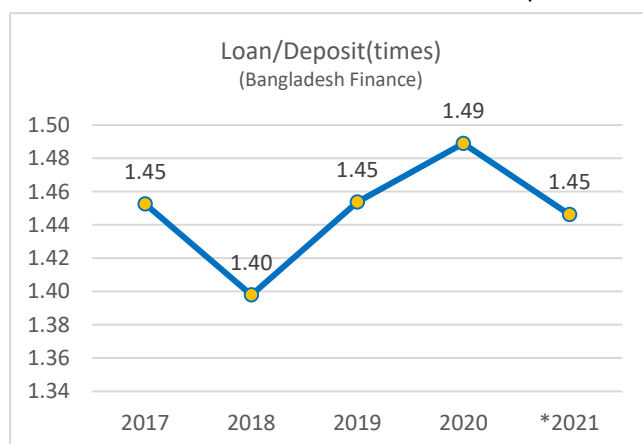


Figure 57: Loan to deposit ratio (times) of Bangladesh Finance

* Up to September - 2021

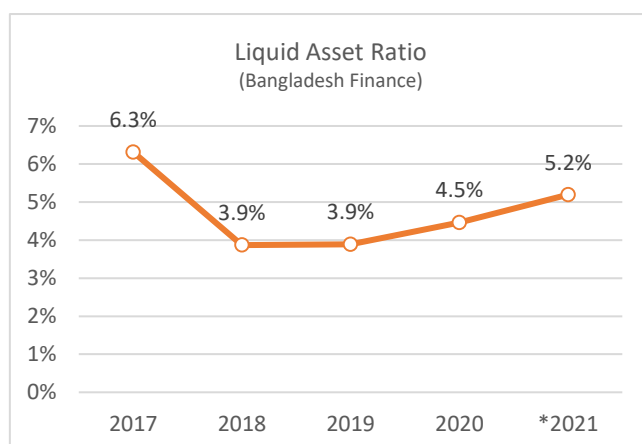


Figure 56: Liquid asset ratio of Bangladesh Finance

* Up to September - 2021

4.3.6 Capital Adequacy & Market Discipline (CAMD)

According to Bangladesh Bank from January 1, 2010, all scheduled banks must comply with "Guidelines on Risk Based Capital Adequacy (RBCA) for Banks - Revised Regulatory Framework in Line with BASEL-II" to adopt international best practices and make the bank's capital more risk-absorbent, as well as build a more shock-resistant and stable banking industry. Tier 1 capital of Bangladesh Finance includes paid up capital, statutory reserve & retained earnings. Tier-one capital is used to withstand losses without necessitating a bank's closure. Supplementary capital or tier 2 capital includes general reserve & 50% of revaluation surplus. Tier-2 capital is seen to be less secure than Tier-1 capital. In the case of a company's bankruptcy or liquidation, this capital absorbs losses.

CAMD						
	2016	2017	2018	2019	2020	*2021
Core Capital (Tier-1)	1611	1821	2098	2316	2374	2401
Share Capital	1259	1385	1523	1675	1675	1776
Statutory Reserve	223	265	320	364	409	434
Retained Earnings	130	172	255	277	290	191
Supplementary Capital (Tier-2)	351	418	449	269	333	445
Total Eligible Capital	1,962	2,239	2,547	2,585	2,707	2,846
Total Risk Weighted Assets	14,903	16,506	16,474	16,647	16,340	15,732

Table 6: Capital Adequacy & Market Discipline of Bangladesh Finance

Capital Adequacy Ratio:

Capital adequacy ratio is calculated by dividing FI's total eligible capital by total risk weighted asset. The capital adequacy ratio (CAR) is a fraction of a bank's risk-weighted credit exposures that indicates how much capital a bank has available. The goal is to ensure that banks have enough capital in reserve to absorb a specific level of losses before they risk going bankrupt. According to Bangladesh Bank, minimum capital adequacy ratio for a financial institution is 10%. In the last five years Bangladesh Finance has successfully maintained the minimum requirement imposed by Bangladesh Bank. As of December, 2020 Bangladesh Finance had a CAR of 16.6%.

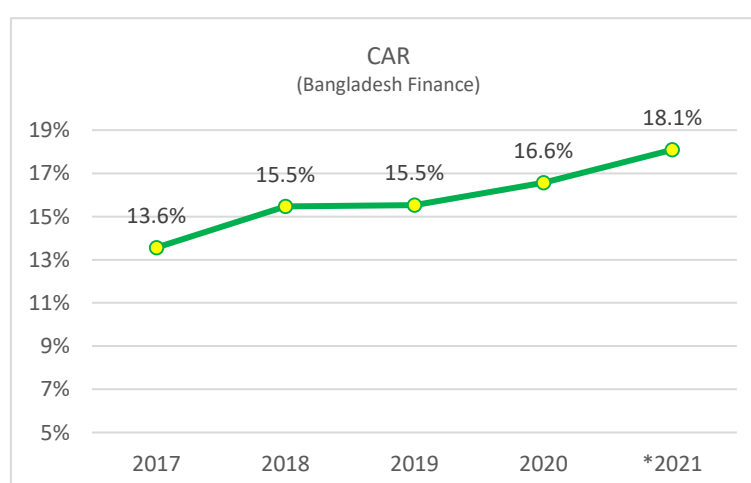
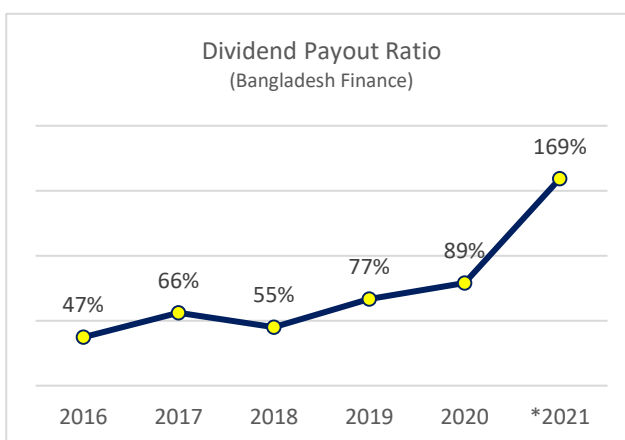
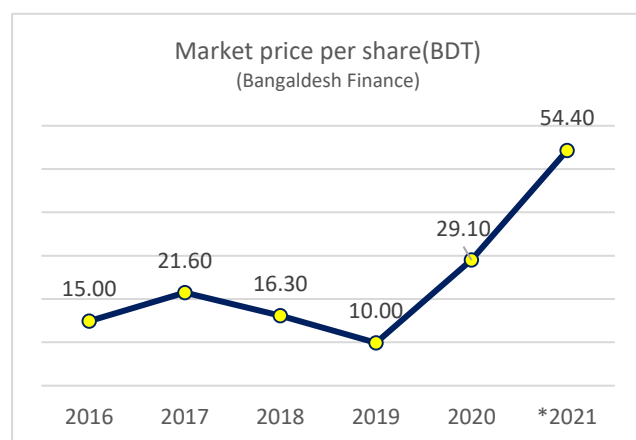
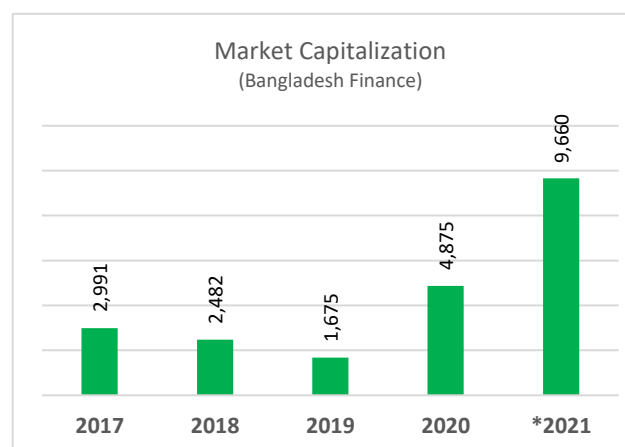
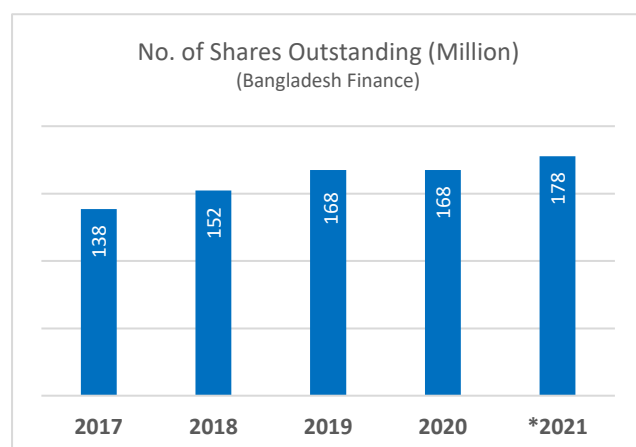
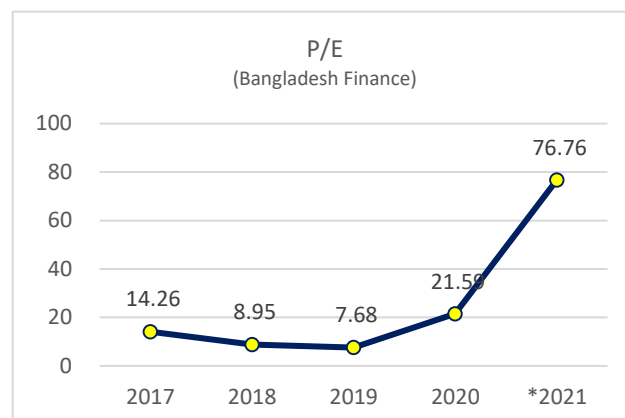
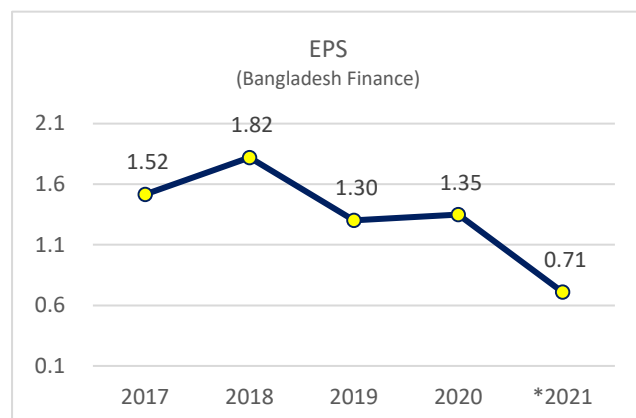


Figure 58: Capital Adequacy Ratio of Bangladesh Finance

* Up to September - 2021

5.3.5 Shareholder's Information

The price-to-earnings ratio (P/E ratio) is a valuation ratio that compares a company's current share price with its earnings per share (EPS). Price to earnings ratio reflects the price investors are paying for each amount of companies' earnings. Generally, investor's thinks lower P/E ratio is better but in reality, P/E ratio is more compatible in terms of comparison. Sometimes higher P/E ratio also portrays potential growth perspective of the company. As of September-2021, market capitalization of Bangladesh Finance stood at BDT 9,600 million which is a 98% increase from the previous year. Market cap of Bangladesh Finance almost doubled in one year & the reason behind this is increasing share price & issuance of new share.



Chapter-5 Forecasting Key Determinants

5.1 Forecasting key Balance Sheet Figure

The forecasting model of a FI begins with a balance sheet. The items of balance sheet can be cracked down into four categories & those are:

- ✓ Assets
- ✓ Liabilities
- ✓ Items that depend on profit & loss evaluation
- ✓ Balancing Items (used as plug variable)

5.1.1 Assets

5.1.1.1 Regression analysis of GDP & Loan-Lease-Advances

The number of gross loans to customers is one of the most significant items to forecast among a FI's assets. This is usually the largest component of interest-earning assets, thus getting an accurate estimate is critical for properly modeling net interest income. For forecasting lending growth of Bangladesh Finance Limited, macroeconomic variable like GDP can be a great indicator as it represents the growth of an economy. These are nominal yearly nominal GDP figures of Bangladesh & loan-lease advances of Bangladesh Finance Ltd for last 12 years.

Year	Nominal_GDP_BD (BDT in million)	Lending_BDFINANCE (BDT in million)
2010	7,975,387	2,957
2011	9,158,288	3,291
2012	10,552,040	3,755
2013	11,989,232	8,327
2014	13,436,744	10,707
2015	15,158,022	13,282
2016	17,328,637	13,892
2017	19,758,154	14,009
2018	22,504,810	13,629
2019	25,424,840	13,144
2020	27,393,324	12,844
2021	30,164,637	13,105

Table 7: Historical nominal GDP of Bangladesh & lending portfolio of Bangladesh Finance
Source: GDP- world economic outlook database, IMF

Here, I considered nominal GDP of Bangladesh as an independent variable & loan lease advances of Bangladesh Finance as a dependent variable. By considering this, I plugged that dataset in **SPSS** and ran a simple linear regression. Attained results are given below:

Model Summary:

The value R represents the Person's R or correlation between the dependent & independent variable. As stated by the results the value of R = 0.775 or 77.5% which portrays a strong relationship between the two variables. Correspondingly the value of R Square represents the efficiency of our model. In this model the value of R Square is 0.601 or 60.1% which means that this model is able to explain 60.1% of loan, lease & advance variation by the variation of GDP.

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.775 ^a	.601	.561	2956.14600
a. Predictors: (Constant), Nominal GDP of Bangladesh				
b. Dependent Variable: Loan Lease & Advances of BDFINANCE(solo)				

Hypothesis Testing:

H0: The independent variable (GDP) is statistically irrelevant in explaining the dependent (Loan) variable.

H1: The independent variable (GDP) is statistically relevant in explaining the dependent (Loan) variable.

Significance:

(Sig. p-value) observed in this test: 0.0031

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	131587960.375	1	131587960.375	15.058	.0031 ^b
	Residual	87387991.441	10	8738799.144		
	Total	218975951.816	11			
a. Dependent Variable: Loan, Lease & Advances of BDFINANCE(solo)						
b. Predictors: (Constant), Nominal GDP of Bangladesh						

Rule of thumb:

If $p < 0.05$; accept alternate

If $p > 0.05$; reject alternate

Conclusion:

Our p value is 0.0031 which is less than ($<$) 0.05, hence we should accept the alternate hypothesis. So we can conclude that the independent variable GDP is statistically relevant in explaining the dependent variable loan, lease & advances.

Building Regression equation:

To build a regression equation to predict loan lease & advances of Bangladesh Finance we need to take a look at the unstandardized coefficient table.

Here,

Intercept, $a = 2098.685$

Beta Coefficient, $b = 0.000464$

So,

$$Y = 2098.685 + (X \cdot 0.000464)$$

Or

$$\text{Depended Variable} = 2098.685 + (\text{Independent Variable} \cdot 0.000464)$$

Or

$$\text{Loan, lease \& advances} = 2098.685 + (\text{GDP} \cdot 0.000464)$$

So, this equation represents that for 1 million increase in GDP of Bangladesh the Loan, lease & advances of Bangladesh Finance will increase by 0.000464 million.

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2098.685	2266.160		.926	.376
	Nominal GDP of Bangladesh	.000464	.000119	.775	3.880	.003
a. Dependent Variable: Loan, Lease & Advances of BDFINANCE(solo)						

Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	5796.4346	16084.3730	10245.0896	3458.69077	12
Residual	-3236.29517	4155.53467	.00000	2818.57461	12
Std. Predicted Value	-1.286	1.688	.000	1.000	12
Std. Residual	-1.095	1.406	.000	.953	12
a. Dependent Variable: Loan ,Lease & Advances of BDFINANCE(solo)					

Histogram:

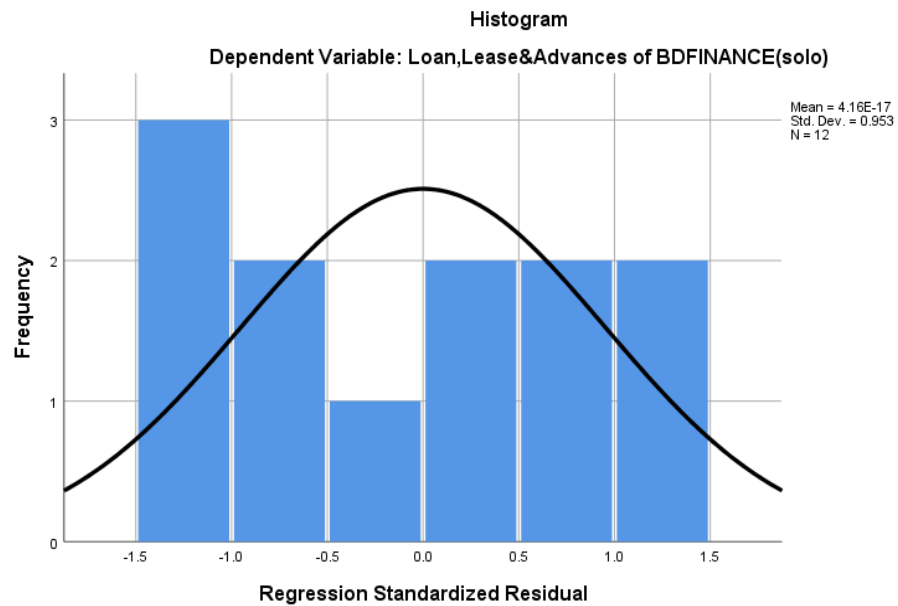


Figure 59: Histogram of dependent variable (Lending of Bangladesh Finance)

P-P Plot:

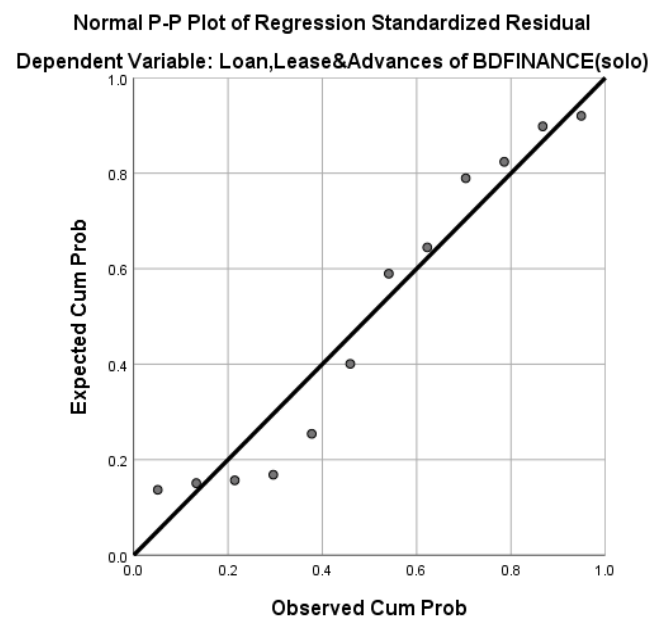


Figure 60: Normal P-P plot of regression standardized residuals (dependent variable)

Forecasting Loan, Lease & Advances based on regression equation:

Here, I have taken the value of independent variable (Forecasted GDP) from World Economic Outlook update of International Monetary Fund. The forecasted value of GDP starts after 2021.

Year	Nominal_GDP_BD (BDT in Million)	Lending_BDFINANCE (BDT in Million)	YOY growth
2010	7,975,387	2,957	
2011	9,158,288	3,291	11%
2012	10,552,040	3,755	14%
2013	11,989,232	8,327	122%
2014	13,436,744	10,707	29%
2015	15,158,022	13,282	24%
2016	17,328,637	13,892	5%
2017	19,758,154	14,009	1%
2018	22,504,810	13,629	-3%
2019	25,424,840	13,144	-4%
2020	27,393,324	12,844	-2%
2021	30,164,637	13,105	2%
2022F	33,915,368	17,823	36%
2023F	38,483,803	19,942	12%
2024F	43,584,947	22,307	12%
2025F	49,314,919	24,963	12%
2026F	55,746,190	27,945	12%

Table 8: Forecasted lending of Bangladesh Finance based on regression equation

Source: Estimated GDP- world economic outlook database, IMF

5.1.1.2 Cash & reserve deposits

They're usually depicted as a fixed proportion of deposits, although their value can fluctuate due to changes in central bank reserve requirements (Massari, Gianfrate, & Zanetti, 2014). In our model I have assumed that cash & reserve deposit for Bangladesh Finance will be a constant percentage of deposit for the next 5 years. According to the Balance Sheet of Bangladesh Finance cash & reserve deposit is consist of cash in hand, balance with Bangladesh Bank.

5.1.1.3 Fair Value Items

Here, as fair value item, I am indicating towards the value of investment in securities. In short term he value of investment, fluctuates with the stock market volatility. However, the long term growth rate of investment in securities can be converged with the accrual items like lending, deposit (Massari, Gianfrate, & Zanetti, 2014). So, according to this statement, I am assuming that the investment in securities of Bangladesh Finance will growing according to the growth of their deposit portfolio. Though, during my internship period, I got to know that the management of Bangladesh Finance is planning to increase their activities in capital market. If this happens then unusual growth of their investment portfolio in capital market might happen in the upcoming years.

Investment in Securities of Bangladesh Finance		
Quoted Shares		
Name of the Institution	Cost Price 2020	Market Price 2020
ADN Telecom Limited (ADNTEL)	-	-
Coppertech Industries Limited (COPPERTECH)	-	-
Eastland Insurance Company Ltd. (EASTLAND)	5,302,000	3,649,708
Esquire Knit Composite Limited (ESQUIRENIT)	-	-
Genex Infosys Limited (GENEXIL)	-	-
Meghna Life Insurance Co. Ltd. (MEGHNALIFE)	5,923,427	5,942,163
New Line Clothings Limited (NEWLINE)	-	-
One Bank Limited (ONEBANKLTD)	17,287,500	8,829,334
Padma Islami Life Insurance Limited (PADMALIFE)	21,142,061	5,909,884
Runner Automobiles Limited (RUNNER AUTO)	-	-
Robi Axiata Limited (ROBI)	2,712,530	8,083,339
Sea Pearl Beach Resort & Spa Limited (SEAPEARL)	17,764	147,522
Silco Pharmaceuticals Limited (SILCOPHL)	-	-
SK Trims & Industries Limited (SKTRIMS)	77,029,339	95,234,047
S. S. Steel Limited (SSSTEEL)	-	-
Summit Power Limited (SUMITPOWER)	23,496,919	14,536,658
The City Bank Ltd. (CITYBANK)	600	372
United Finance Limited (UNITEDFIN)	35,343,229	11,177,692
Zeal Bangla Sugar Mills Ltd. (ZEALBANGLA)	5,900,595	4,311,452
	194,155,965	157,824,189
Unquoted Shares		
GMG Airlines Limited.	10,000,000	-
	10,000,000	-
Total Investment	204,155,965	157,824,189

Table 9: Investment portfolio of Bangladesh Finance

5.1.1.4 Fixed Asset

Fixed assets of Bangladesh Finance are comprised of land, building, furniture, office equipment, office renovation, motor vehicle, other asset, system software & right to use asset for lease rent. BD finance follows straight line method for depreciating their assets. Annual Depreciation rates collected from the policy notes of Bangladesh Finance are given below:

Annual Depreciation Rate of Bangladesh Finance	
Building	10%
Office equipment	25%
Office Renovation	20%
Furniture and fixtures	20%
Motor vehicles	20%
Other assets	20%
Right-of-use Asset	Lease term

Table 10: Annual depreciation rates of Bangladesh Finance

Yearly depreciation expense are calculated & deducted as depreciation expense in the income statement under operating expense. This yearly depreciation expense affects the balance sheet item called accumulated depreciation. Accumulated depreciation is contra asset account that reduces the value of fixed asset at cost.

Therefore, for forecasting the fixed asset's value of Bangladesh Finance we should depreciate each type of fixed asset according to the annual rate given below. However, for simplifying things I have divided the depreciation expense by the fixed asset for five historical years. Then I have calculated the average to find the depreciation rate of next five years.

5.1.1.5 Other & Non-Banking Assets

According to the Balance sheet of Bangladesh Finance others assets contains investment in subsidiaries, investment in mutual fund & receivable-advance-deposits. Here, investment in other subsidiaries is a constant item. Investment in mutual fund, receivable, advances & deposits are moving items. Therefore, for forecasting other assets I have taken the average 5 years historical growth of other asset.

Bangladesh Finance has been awarded absolute ownership on seven mortgaged property (Land) in the year of 2015 through verdict of honorable court under section 33 (7) of Artha Rin Adalat Ain, 2003. These have been recorded at Taka 212,121,062 as non-banking assets. Therefore, I have assumed that non-banking asset of Bangladesh Finance will remain constant for the next five years.

5.1.2 Liability & Owner's Equity

5.1.2.1 Estimating the Growth of Deposit

Estimating the customer deposit growth is the most crucial task. Because customer deposit represent the highest amount of interest bearing liability of a financial institution. Generally deposit growth can be estimated in two ways:

- First way is conducting a regression analysis with the macroeconomic variables. This way is the same as the way we forecasted our lending portfolio. However, it's necessary to check whether it's possible to accumulate this amount of deposit at that time by checking the previous loan to deposit ratios.
- Another way is to predict the deposit growth by fixing a constant loan to deposit ratio which the management will be willing to maintain.

In this valuation model deposit growth has been forecasted by taking the average of 5 years historical loan to deposit ratio.

5.1.2.2 Borrowings

The value of term loans or long term debts are generally rolled forward, unless there are any specific indicator from management. Borrowings are treated as a source of fund for any corporation. Financial institutions most of the time borrows fund to meet their working capital need as well as to disburse them as loan. In our model, I have calculated the historical average of borrowings as a percentage of lending to forecast the borrowing mix.

5.1.2.3 Dependent items on profit & loss statement

Shareholder's Equity: The main item that's evaluation depends on income statement is shareholder's equity. The amount of retained earnings mainly impacts the shareholder's equity. From income statement we can find out the net income of Bangladesh Finance & after that by following a specific dividend payout ratio we can find out the dividend amount. After deducting the dividend amount we can find out the retained earnings or retention for growth. However, other items like paid up capital & revaluation surplus of asset might also affect the shareholder's equity. Generally these items doesn't get priority during valuation unless there is a clear indication from the management.

Cumulative Provision for loan lease & Advances: This item lies under the other liability side of the balance sheet. Cumulative provision amount is treated as current liability in the balance sheet. This item is directly affected by the yearly provision of profit & loss statement. I have made a detailed schedule of probable yearly provision amount by considering expected NPL in that section of profit & loss statement.

Except provision for loan, lease & advances there are other provision account for investment in securities & account receivable. These accounts have been treated by considering a simple average growth rate.

5.1.3 Balancing Item (Plug)

For balancing the balance sheet it's important to choose some balancing item or plug variable. Some alternative plug variables:

- **Due from banks:** This is an asset side plug variable. This variable represents the situation when a financial institution's depository portfolio is bigger than their lending portfolio. The simple assumption is, if the FI is unable to distribute all its deposit as a loan then they will keep those excess amount in other banks of FIs.
- **Due to banks:** This is a liability side plug variable. The variable represents the situation when a FI's depository portfolio is less than the lending portfolio. The simple assumption is the financial institution needed to take help or borrow extra money to cover up the funding crisis in order to meet their lending target.

5.2 Forecasting Profit & Loss Figure

It is feasible to model the P&L and anticipate earnings after the quantity of volumes and risk taken has been calculated via balance sheet. The following are the primary topics that demand in-depth modeling:

- Net-interest income
- Net fees & commission income
- Net income from investment in securities
- Operating Expenses including depreciation
- Provision

5.2.1 Net Interest Income

Net interest income represents the bank's main revenue line. It's the difference between main interest income & interest expense. The appropriate way of finding out interest revenue is applying interest rate on each category of interest earning asset which is previously forecasted in the balance sheet. Interest earning assets of Bangladesh Finance consists of lending portfolio & balance with other banks & FIs. The appropriate level of interest rate can be determined by the reference benchmark. Here, as an appropriate rate for interest earning asset I have taken weighted average interest rate on advances for NBFIs industry published by Bangladesh Bank monthly economic update.

The same approach can be applied for calculating the interest expense. Interest bearing liability of Bangladesh Finance represents customer deposit & borrowings from other bank.

Detailed discussion about previous 10 years weighted average interest rates for NBFIs industry can be found in industry analysis section under the fundamental analysis chapter. According to monthly economic trend – Jan21, published by Bangladesh Bank, current weighted average interest on advance is 10.64% & for deposit this rate 7.52%.

Interest Rate Movement of NBFIs (weighted avg.)										
Year	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18	FY-19	FY-20	FY-21	*FY-22
Deposits	14.21	12.52	10.61	8.95	8.37	10.14	10.56	9.72	7.82	7.52
Advances	17.44	16.90	15.12	13.07	11.69	12.67	13.00	12.93	11.19	10.64
Spread	3.23	4.38	4.51	4.12	3.32	2.53	2.44	3.21	3.37	3.12

Table 11: Weighted average interest rate movement of NBFIs

Source: Monthly Economic Trend – Jan, 2021 / Bangladesh bank

5.2.2 Non-interest Income

Non-interest income of Bangladesh Finance represents income from investment in securities, commission & other income. Here, I am considering commission & other operating income as commercial banking fees cumulatively. I have modeled commercial banking fees as total percentage of loan & deposits. Income from investment in securities can be modeled as percentage of total investment volume. However, these incomes are most volatile in the entire profit & loss statement.

5.2.3 Operating Expenses & Depreciation

Operating expenses are highly monitored & controlled by the management of the company. Management always tries to keep the operating expenses lower in terms of the total operating income & that efficiency reflects in the cost to income ratio. Therefore, I have calculated an average of historic cost to income ratio of Bangladesh Finance & assumed it as a base for forecasting operating expense. Though, I calculated this average cost to income ratio after deducting depreciation expense.

Depreciation expense is a non-cash expense, which is treated as an operating expense in the profit & loss statement of a company. Depreciation expense affect the accumulated depreciation account in the balance sheet, which is treated as a contra asset account. Fixed asset at cost represents the cost directly related to the purchase of asset. Companies need to purchase fixed assets to expand or run their business smoothly & that is treated as addition to the fixed asset at cost. In our model, for calculating depreciation, I have taken the historical average (depreciation/fixed asset at cost) ratio to come up with a simplified depreciation rate.

5.2.4 Provision

Provision is an amount that company set aside to cover up probable loss. This provision amount directly affects the cumulative provision account in the balance sheet. Financial institutions expects that some portion of their lending will get classified at a certain period of time. This percentage of classified amount in terms of total outstanding loan is known as non-performing loan or NPL (%). Against these NPL, FIs keeps provision & these measurement of provision coverage ratio represents the company's ability to cover up for the amount of lending that gets classified.

In recent years, Bangladesh Finance has a decreasing trend in their NPL ratio. During my internship period, I got to know that Bangladesh Finance is planning to bring back their NPL below 3%. Therefore, I assumed that Bangladesh Finance will be able to keep their NPL ratio at 3% for the next five years. Besides, average provision coverage of Bangladesh Finance for last five years is 81%. So, I assumed that Bangladesh Finance will keep up that ratio for next five years & thus I forecasted the amount of provision.

Provision (BD Finance)	Actual					Forecasted				
	2017	2018	2019	2020	*2021	2022	2023	2024	2025	2026
Loan Outstanding	14,009	13,629	13,144	12,844	13,105	17,823	19,942	22,307	24,963	27,945
Classified Amount	852	602	637	413	405	535	598	669	749	838
NPL (%)	6.1%	4.4%	4.8%	3.2%	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%
Provision Amount	537	463	390	427	405	432	484	541	606	678
Provision Coverage Ratio	63.0%	76.9%	61.2%	103.2%	100.0%	81%	81%	81%	81%	81%

Table 12: Provision schedule of Bangladesh Finance

5.3 Pro-Forma Financial Statement

5.3.1 Pro-Forma Balance Sheet

Pro-Forma Balance Sheet Bangladesh Finance		Historical Period				Forecasted Period				
		2018	2019	2020	*2021	2022	2023	2024	2025	2026
		ok	ok	ok	ok	ok	ok	ok	ok	ok
Balance Sheet		BDT in Million								
Assets										
Cash & Cash Equivalent		133	116	75	77	146	163	182	204	228
Due from Banks		659	609	691	809	990	1,108	1,239	1,387	1,552
Investment in Securities		484	284	204	260	452	506	566	633	709
Lending		13,629	13,144	12,844	13,105	17,823	19,942	22,307	24,963	27,945
Fixed asset at cost(beginning balance)		480	484	536	678	691	753	820	894	974
Addition During the year		4	52	142	13	62	67	73	80	87
Fixed asset at cost(Closing balance)		484	536	678	691	753	820	894	974	1,061
Accumulated Depreciation		96	132	154	185	237	293	354	420	493
Net Fixed Asset		388	405	524	506	516	528	540	553	568
Other Asset		2,003	1,263	1,363	1,423	1,357	1,293	1,233	1,176	1,121
Non-banking Asset		212	212	212	212	212	212	212	212	212
Total Asset		17,508	16,032	15,914	16,391	21,496	23,751	26,279	29,128	32,335
Liabilities										
Due to Banks		280	164	113	178	402	495	613	761	941
Refinancing		124	95	81	83	139	156	174	195	218
Short-term Loan		1,224	1,522	1,472	983	1,627	1,820	2,036	2,278	2,550
Term Loan		1,579	1,316	1,285	1,213	2,051	2,295	2,567	2,873	3,216
Deposit		9,579	8,837	8,616	9,325	12,411	13,886	15,533	17,382	19,459
Provision for lending		463	390	427	332	432	484	541	606	678
Other Liabilities		1,867	1,097	1,134	1,466	1,521	1,579	1,638	1,700	1,765
Total Liability		15,115	13,421	13,127	13,580	18,583	20,714	23,102	25,795	28,827
Shareholder's Equity										
Beginning Shareholder's Equity		2,138	2,334	2,496	2,621	2,812	2,913	3,037	3,176	3,333
Retention for growth		255	277	290	191	101	124	139	156	175
Total Shareholder's Equity		2,393	2,611	2,786	2,812	2,913	3,037	3,176	3,333	3,508
Total Liability & Shareholder's Equity		17,508	16,032	15,914	16,391	21,496	23,751	26,279	29,128	32,335

Table 13: Pro-forma Balance Sheet of Bangladesh Finance

5.3.2 Pro-Forma Profit & Loss Statement

Pro-Forma P&L statement	Historical Period				Forecasted Period				
	2018	2019	2020	*2021	2022	2023	2024	2025	2026
Bangladesh Finance	32%	-21%	3%	-44%	183%	23%	12%	12%	12%
Profit & Loss									
Interest Income	1,849	1,944	1,660	1,096	2,002	2,240	2,505	2,804	3,139
Interest Expense	1,420	1,365	1,166	743	1,220	1,365	1,527	1,709	1,913
Net interest Income	428	579	493	353	781	874	978	1,094	1,225
Income from capital market trading	20	(177)	38	59	72	81	90	101	113
Fee Based Income	111	166	38	24	123	138	154	173	193
Non-interest Income	131	(11)	76	83	195	219	245	274	306
Total Operating Income	559	568	570	435	977	1,093	1,222	1,368	1,531
Operating expense (ex. Dep.)	191	168	146	127	284	318	355	398	445
Depreciation Expense	32	51	42	32	51	56	61	66	72
Total Operating Expense	223	219	187	159	335	374	416	464	517
Profit Before Provision & Tax	336	349	382	277	642	719	806	904	1,014
Provision	(60)	(74)	37	92	100	51	57	64	72
Profit Before Tax	396	423	345	185	541	668	749	840	942
Tax Expense	119	204	119	59	185	229	256	287	322
Net profit after tax	277	218	226	126	356	439	493	552	619

Table 14: Pro-forma Income statement of Bangladesh Finance

5.3.3 List of Assumptions

Items	Description	Assumptions
Assumption for Assets		
Cash & Cash Equivalent	<i>average historical cash/deposit ratio</i>	1.2%
Due from banks	<i>% of deposit</i>	8.0%
Investment	<i>% of deposit</i>	3.6%
Lending	<i>projected loan portfolio</i>	page-
Net-Fixed asset	<i>simple growth rate of fixed asset at cost (closing balance) - Accumulated Depreciation</i>	8.9%
Other Assets	<i>simple growth rate of other assets</i>	-4.7%
Non-banking assets		Constant
Assumption for Liabilities		
Due to banks		plug
Refinancing	<i>% of gross lending portfolio</i>	0.8%
Short-term Loan	<i>% of gross lending portfolio</i>	9.1%
Term Loan	<i>% of gross lending portfolio</i>	11.5%
Deposit	<i>percentage of average historical loan/deposit ratio</i>	144%
Other liabilities	<i>simple growth rate</i>	4%
Assumption for P/L		
Interest Income	<i>weighted average of interest on lending for NBFi industry*interest earning assets(page-)</i>	10.6%
Interest Expense	<i>weighted average of interest on deposits for NBFi industry*interest earning liabilities(page-)</i>	7.5%
Income from capital market trading	<i>% of capital market portfolio</i>	15.9%
Fee based income	<i>% of gross loan & deposit</i>	0.4%
Operating Expense (ex. Dep.)	<i>average cost/income ratio (ex. dep)</i>	29.1%
Depreciation expense	<i>% of average historical fixed asset at cost (closing balance)</i>	6.8%
Provision	<i>taken from provision schedule</i>	page-
Tax	<i>average historic effective tax rate</i>	34.2%

Table 15: List of assumptions used for forecasting

Chapter-6 Valuation

6.1 CAPM

$$\begin{aligned}\text{CAPM Equation} &= R_f + \beta^*(R_m - R_f) \\ &= 6.19\% + 1.79*(12.48\% - 6.19\%) \\ &= 17.5\% \text{ (cost of equity)}\end{aligned}$$

6.1.1 Estimating Risk Free Rate

Risk free rate portrays the amount of return anyone can get from an investment without taking any risk. The generic way of estimating the risk free rate is to take a look at the return of long term government Treasury bond. Here, the principle assumes that government of a country is default risk free and thus the rate of government's Treasury bond is considered as risk free rate. However, in reality all the governments are not default risk free. Some developing countries like Bangladesh have some default risk. Default risk can be measured by taking a look at the sovereign rating of the country. If the country is "AAA" rated then it can be considered as default risk free. According to S&P Global ratings, Bangladesh has a sovereign credit rating of "BB-" which is lower than "AAA". That means government of Bangladesh have some sort of default risk. However, to simplify this model, I have ignored the sovereign default spread & taken the current rate of 10 year government Treasury bond as risk free rate of return.

Bangladesh Government Treasury Bond Rate(%)							
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
BGTB							
2-Years	7.79%	7.75%	4.61%	3.28%	3.13%	2.44%	-
5-Years	8.05%	8.05%	5.57%	4.48%	4.24%	3.84%	4.67%
10-Years	8.47%	8.62%	6.48%	5.68%	-	5.38%	6.19%
15-Years	8.69%	8.69%	6.70%	6.58%	-	5.65%	6.19%
20-Years	8.99%	8.90%	6.98%	7.10%	0.00%	6.06%	6.31%

Table 16: treasury bond rate of Bangladesh Government

Source: Quarterly Financial Stability Report / Bangladesh Bank

6.1.2 Estimating Market Return & Equity Risk Premium

Market return can be simply defined by the average historic return of the market. For calculating market return, I have taken the last four years daily closing data of DSE Broad Index (DSEX) & calculated the daily percentage change for the last four years. Then I converted that daily average return into yearly return.

Equity premium is the rate above the risk free rate, an investor would demand for investing in a risky asset. In other words equity risk premium is the difference between markets return & risk free rate.

$$\text{Daily Market Return, } R_m (\text{daily}) = 0.0322\%$$

$$\text{Yearly Market Return, } R_m (\text{yearly}) = (1 + R_m (\text{daily}))^{365} - 1$$

$$\begin{aligned}\text{Or, } R_m (\text{yearly}) &= (1 + 0.0322\%)^{365} - 1 \\ &= 12.48\%\end{aligned}$$

$$\text{Risk Premium, } R_P = (R_m - R_f)$$

$$\begin{aligned}&= (12.48\% - 6.19\%) \\ &= 6.29\%\end{aligned}$$

6.1.3 Estimating Beta

Beta is measure of relative risk for investing in an asset. A stock having a beta of 1 means the stock is as risky as the market & a beta of 0.50 means the stock is 50% less risky than the market itself. Alongside, a beta of 1.50 means the stock is 50% more risky than the market. To calculate beta for Bangladesh Finance, I ran a regression analysis between last 4 years daily closing stock price of Bangladesh Finance & the broad index price of Dhaka Stock Exchange. DSEX was considered as the independent variable & stock price of Bangladesh Finance was considered as dependent variable.

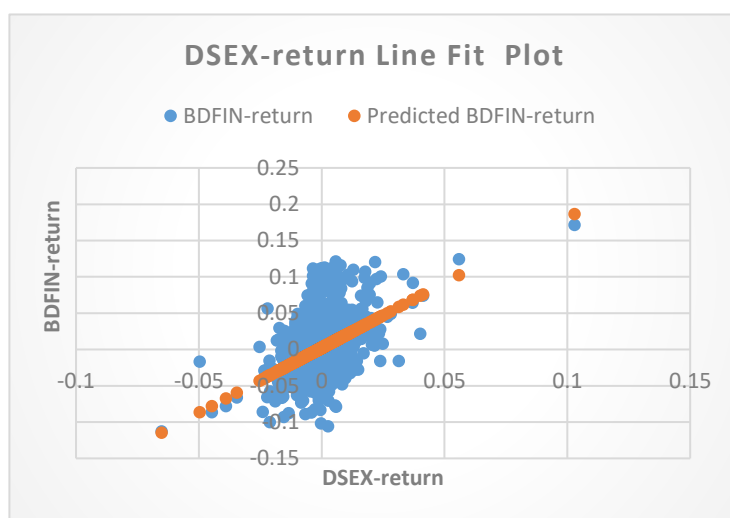


Figure 61: Line fir plot of DSEX return

Here, the coefficient can be considered as beta as it explains the relationship between the independent & dependent variable. So, Beta for Bangladesh Finance is equals to **1.7891** or **1.79**. By looking at the beta we can say that investing Bangladesh Finance is 79% more risky than the market. However, R^2 of this model is only 23.89%, which is quite insignificant. The reason behind this insignificant R^2 is scattered price movement of Bangladesh Finance in last four years. This scattered price movement is clearly visible in the line fit plot.

SUMMARY OUTPUT

Regression Statistics

Multiple R	0.4897352
R Square	0.2398405
Adjusted R Square	0.2391054
Standard Error	0.0312478
Observations	1036

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1.00	0.32	0.32	326.24	0.0000
Residual	1034.00	1.01	0.00		
Total	1035.00	1.33			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.0018	0.0010	1.8102	0.0706	-0.0001	0.0037	-0.0001	0.0037
DSEX-return	1.7891	0.0990	18.0621	0.0000	1.5947	1.9834	1.5947	1.9834

6.2 Dividend Discount Model

Dividend Discount Model						Assumptions	
	2022	2023	2024	2025	2026		
						Dividend Payout (%)	71.68%
Net Profit After Tax	356	439	493	552	619	RWA (%)	97.54%
Dividend	255	315	353	396	444	R_f	6.19%
Retention for Growth	101	124	139	156	175	R_m	12.48%
						R_p	6.29%
						β	1.79
						CAPM	17.5%
						Growth Rate	7.10%
Regulatory Check							
Total Shareholder's Equity	2,913	3,037	3,176	3,333	3,508		
Total Asset	21,496	23,751	26,279	29,128	32,335		
Risk Weighted Asset	20,968	23,168	25,634	28,413	31,541		
CET-I (%)	13.9%	13.1%	12.4%	11.7%	11.1%		
Minimum Required -CET-I (%)	6%	6%	6%	6%	6%		
Status	met	met	met	met	met		
Dividend	255	315	353	396	444		
Terminal Value					4,594		
Total	255	315	353	396	5,038		
Equity Value(NPV)	3126						
Number of shares outstanding	178						
Value Per Share(Taka)	17.6						
Current Share Price(Taka)	47.9						
Trading in Premium	172%						

Table 17: Dividend Discount Model

According to the dividend discount model, the value of the shares depends on the expected dividend to the shareholders. The detailed principles & assumptions of the dividend discount model have already been discussed in the literature review section. The dividend of a company is highly affected by the profitability & the management's decision about disbursing net income as dividend. In this model to find out the optimum dividend payout ratio, I have considered the historic average of the dividend payout ratio. Because management's previous trend of paying dividends justifies, the amount of net income they are willing to disburse in return of let going the growth opportunity. Besides, checking regulatory requirements is another concern. As stated by Bangladesh Bank, financial institutions have to maintain at least a 6% Tier-I capital ratio. According to this model, Bangladesh Finance was able to maintain that ratio well and above which signifies the financial strength of the company. Thereafter, I considered calculating the present value of forecasted dividends & terminal value by using the previously measured cost of capital. For calculating terminal value, I have assumed that Bangladesh Finance will have a long-term growth rate of 7.10%. I came up with this growth rate by considering the forecasted GDP growth rate of 2026 by the International Monetary Fund. Thus, I came up with the equity value (BDT 3,126 million) of Bangladesh Finance. As of 19th February 2022 last traded price of Bangladesh Finance is BDT 47.9, which is a 172% premium according to this valuation model.

6.3 Comparable Company Analysis

A detailed discussion regarding fundamental principles & assumptions of relative valuation has already been done in the literature review chapter (page-). Core principle of relative valuation is similar assets should have similar price in the market. In relative valuation the value of the asset highly depends on the choice of the comparable companies. Comparable companies can be selected on the basis of the size of the company, industry, market capitalization of the company, number of customer served, financing structure, profitability & etc. Here, all the companies belongs to non-bank financial industry & they all have similar profitability. Net profit after tax (NPAT) is defining profitability here.

Company Name	Market Data (Date: 19 th Feb, 2022)				Financial Data (Date: 30 th Sep, 2021)			
	Price (BDT/Share)	No. Shares	Market Cap. (BDT in mn)	Book Value (BDT in mn)	Revenues (BDT in mn)	OI (BDT in mn)	NPAT (BDT in mn)	Deposit (BDT in mn)
UNITEDFIN	20.9	187,114,615	3,911	1,871	526	680	134	13,201
PHOENIXFIN	24.6	165,874,195	4,081	1,659	548	626	107	18,311
GSPFINANCE	25.8	157,068,585	4,052	1,571	378	521	199	2,103
NHFIL	52.2	117,031,200	6,109	1,170	441	496	248	14,616
ISLAMICFIN	25.5	140,326,670	3,578	1,403	138	331	125	13,545
BDFINANCE	47.9	177,581,384	8,506	1,776	353	435	126	9,325

Table 18: List of market & financial data for selected companies

Relative valuation of financial service firms are mostly based on the equity side multiples as previously stated in the literature review chapter. Initially in this model five multiple has been considered based on the market & financial data. In 2nd step average of each multiple for six selected company has been calculated. The 3rd step refers to the measure of difference of this average multiple with individual multiples Bangladesh Finance. In the 4th step, I have divided the last traded share price with the difference for each multiple. Finally by averaging all the (price/Difference), the value per share of Bangladesh Finance has been determined. According to this comparable company analysis model, Bangladesh Finance is currently trading at a premium of 62%.

Company Name	Valuation				
	P/E(x)	P/BV(x)	P/Revenues (x)	P/OI (x)	P/Deposit (x)
UNITEDFIN	29.3x	2.1x	7.4x	5.8x	0.3x
PHOENIXFIN	38.0x	2.5x	7.4x	6.5x	0.2x
GSPFINANCE	20.4x	2.6x	10.7x	7.8x	1.9x
NHFIL	24.7x	5.2x	13.9x	12.3x	0.4x
ISLAMICFIN	28.7x	2.6x	26.0x	10.8x	0.3x
BDFINANCE	67.6x	4.8x	24.1x	19.5x	0.9x
Average	34.8x	3.3x	14.9x	10.4x	0.7x
Difference	1.9x	1.5x	1.6x	1.9x	1.4x
Price/Difference	24.6	32.8	29.6	25.6	35.4
Valuation					29.6
Actual Price					47.9
Premium					62%

Table 19: Comparable Company Analysis

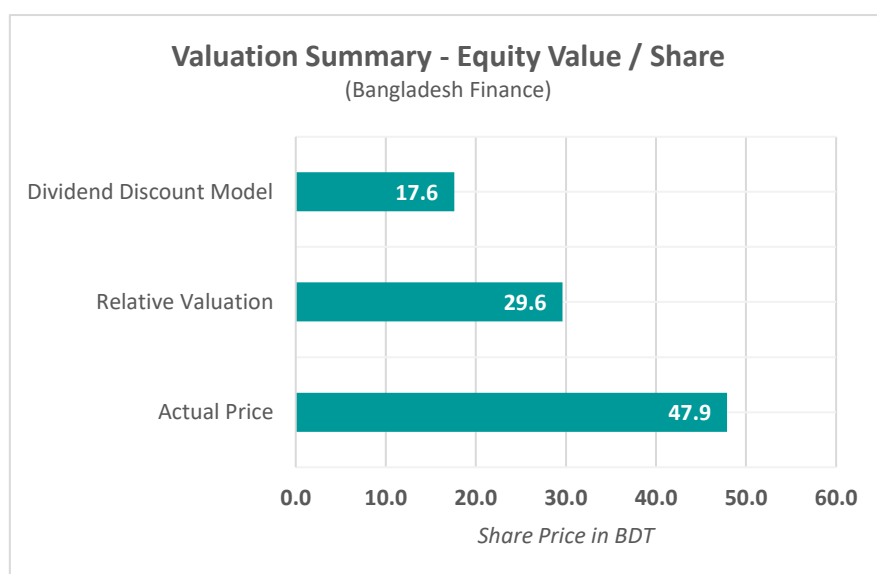
Chapter – 7 Conclusion

The report demonstrates how to value a financial organization by anticipating key balance sheet and income statement elements and then converting those forecasts into valuations. I tried to impart the important parameters that are critical for forecasting the line at every level of the forecasting process. I used SPSS to run our numbers for the normal distribution tests, hypothesis testing, and regression model. According to my study, the fluctuation in GDP may explain 60% of the variation of Bangladesh Finance's lending, which is a crucial driver in financial institution's models. A top to bottom fundamental analysis were conducted before jumping into the valuation. That analysis portrays Bangladesh Finance as high growth non-bank bank financial institutions with tons of potentials.

On the valuation side, I focused on the equity valuation methodologies. Dividend Discount model (DDM) & Comparable Company Analysis (CCA) were the selected valuation techniques for valuing Bangladesh Finance. The dividend discount model considers a bank's surplus capital retained as hidden value while discounting future payouts. CCA considers that the value of similar assets should have similar kind of pricing. This method helps to check the sanity of the valuation.

According to the Dividend Discount Model, Bangladesh Finance should have a per share equity value of BDT 17.6. As of 19th February, 2022 last traded price of Bangladesh Finance's price is BDT 47.9 which is a 172% premium according to the DDM. Comparable Company Analysis (CCA) landed us on a price of BDT 29.6 per share which indicates the share is trading at a 62% premium in the market.

To conclude, despite having high potential, the shares of Bangladesh Finance are still trading at a hefty premium which is not justifiable at this moment.



Appendix

Bangladesh Finance Limited

Balance Sheet

For the year 2017-*2021(*as of Sept-2021)

Particulars	2017	2018	2019	2020	*2021
Assets					
BDT in mn					
Cash	149	133	116	75	77
Cash in hand	0.06	0.07	0.05	0.05	0.05
Balance with Bangladesh Bank	149	133	116	75	77
Balance with other bank & financial institutions	960	659	609	691	809
Investments	488	484	284	204	260
Loans, Leases and Advances	14,009	13,629	13,144	12,844	13,105
<i>Net Investment in Lease Finance</i>	1,826	1,718	1,442	1,359	1,387
<i>Term Finance</i>	10,461	9,934	9,703	9,141	9,326
<i>House Building Finance</i>	1,723	1,977	1,999	2,344	2,391
Fixed Assets	404	388	405	524	506
Other Asset	1,889	2,003	1,263	1,363	1,423
Non-Banking Asset	212	212	212	212	212
Total Assets	18,111	17,508	16,032	15,914	16,391
Liabilities & Capital					
Liabilities					
Financing (Borrowings) from other Banks	3,757	3,206	3,097	2,951	2,457
Deposits	10,192	9,579	8,837	8,616	9,325
<i>Term Deposits</i>	8,951	8,062	7,168	7,083	9,073
<i>Scheme Deposits</i>	956	1,042	1,106	943	-
<i>Other Deposits</i>	59	322	429	482	150
<i>Advance Rent and Installments</i>	226	153	134	109	101
Other Liabilities	2,046	2,330	1,486	1,560	1,798
Total liabilities	15,995	15,115	13,421	13,127	13,580
Capital/ Shareholders' Equity					
Paid-up Capital	1,385	1,523	1,675	1,675	1,776
Statutory Reserve	265	320	364	409	434
Revaluation Surplus on Land & Building	295	295	295	412	411
Retained earnings	172	255	277	290	191
Shareholders' Equity	2,116	2,393	2,611	2,786	2,812
Total Liability & Shareholder's Equity	18,111	17,508	16,032	15,914	16,391

Bangladesh Finance Limited
Profit & Loss Statement
For the year 2017-*2021(*as of Sept-2021)

Particulars	2017	2018	2019	2020	*2021
BDT in mn					
Interest Income	1,592	1,849	1,944	1,660	1,096
Interest Expenses	1,166	1,420	1,365	1,166	743
Net Interest Income	426	428	579	493	353
Income from investment in securities	40	20	(177)	38	59
Commission, Exchange and Brokerage	0.4	0.4	0.5	1	1
Other Operating Income	126	110	166	37	23
Non-Interest Income	166	131	(11)	76	83
Total Operating Income	592	559	568	570	435
Total Operating Expense	187	223	219	187	159
Profit before Provision and Tax	405	336	349	382	277
Total Provision	165	(60)	(74)	37	92
Profit Before Taxation	240	396	423	345	185
Deferred Tax Expenses/(benefit)	(3)	(1)	8	(8)	(22)
Current Tax Expense	33	120	196	127	81
Net Tax Expense	31	119	204	119.4	59
Net Profit After Tax	210	277	218	226	126
Appropriations					
Statutory Reserve	42	55	44	45	25
Retained Earnings	168	222	175	181	101
	210	277	218	226	126

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