Project Paper
On

Comparative Analysis of Capital Structure:
A Study on AB Bank Ltd. & Bank Asia Limited

Submitted To
Controller of Examinations
National University
Gazipur-1704

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Controller of Examinations

National University Bangladesh

Gazipur-1704

Subject: Submission of project paper

Dear Sir,

It is a great pleasure and privilege to present the project paper on **Comparative Analysis of Capital Structure: A Study on AB Bank Ltd. & Bank Asia Limited**. This is assigned to me as partial requirement for the competition of MBA program. Throughout the study I have tried with the best of my capacity to accommodate as much information and relevant issues as possible and tried to follow the instruction you have suggested. I tried my best to make this report as much informative as possible. I sincerely believe that it will satisfy your requirements. However sincerely I believe that this report will serve the purpose of my project submission program.

I am grateful to you for your guidance and kind cooperation at every step of my endeavor on this report. I will remain deeply grateful if you kindly take some pan to go through the report and evaluate my performance.

Sincerely Your

Aysha Akter Happy

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Supervisor's Declaration

This is to certify that, **Aysha Akter Happy**, student of **MBA**, Roll No: 1920426 Registration no: 18601000626, Daffodil Institute of IT, has completed her project paper on **Comparative Analysis of Capital Structure: A Study on AB Bank Ltd. & Bank Asia Limited**. She has completed her project satisfactory under my supervision as the partial fulfillment for the reward of **MBA** program.

She has done her job according to my supervision and guidance and tried the best to do this successfully. I think her study will help her in future to up lift her career.

I wish her every success in life.

Professor Dr. Mohammed Shakhawat Hossain

Principal

Daffodil Institute of IT (DIIT)

Student’s Declaration

I hereby declare that the project paper on **Comparative Analysis of Capital Structure: A Study on AB Bank Ltd. & Bank Asia Limited** includes the result of my own works, pursued under the supervision of **Professor Dr. Mohammed Shakhawat Hossain** Principal, Daffodil Institute of IT (DIIT).

I also like to declare that this report paper is my original work and is prepared for academic purpose which is a part of MBA program.

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Acknowledgement

Firstly I would like to thank my almighty for giving me the opportunity to complete my project report .I also thank all people who given their support and assistance and extremely grateful to them for the completion of the report successfully.

Preparing this report was both exciting and hardworking. It is for the first time that I have been able to gather real life experience working on a report.

I would like to give my heartiest gratitude to **Professor Dr. Mohammed Shakhawat Hossain, Principal, Daffodil Institute of IT (DIIT)** who has extended all types of assistance and cooperation to do such an enthusiastic and challenging topic. Time to time he suggested on how to prepare an effective report and provided valuable guidelines including revision whenever required.
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Abstract

Bangladesh is a developing country. The prosperity of a country depends on its economic activities. Like any other sphere of modern economic activities, banking is a powerful tools of bring about socio-economic changes of a country. Today Private Commercial Banking is considered as a service industry. In the process of conducting its own activities to achieve its own goal such as making profits, a commercial bank gives services to the people. Without adequate banking facility agriculture, commerce and industry cannot flourish on its own way. A suitable developed banking system can provide the necessary boost for the economic growth of the country. Because banking system is linked with the economy.

This report is prepared to analyze the capital structure of private commercial bank which is quiet helpful for the investors, borrowers and other affiliated parties of the bank. This study contains five chapters. Chapter one is Introduction which includes the background, objective, methodology and limitation of the study. Chapter two contains the overview of organization. Chapter three has the theoretical aspects where some model theories are discussed which helps to analyze the capital structure. Chapter four has analytical part which includes different ratios. Chapter five has a particular of findings, recommendations and conclusion of report.

Table of Contents

Acronyms

SL No.	Abbreviation	Elaboration
1	ATM	Automated Teller Machine
2	BDT	Bangladeshi taka
3	BOD	Board of Director
4	DSE	Dhaka Stock Exchange
5	EBIT	Earnings Before Interest and Taxes
6	EPS	Earnings Per Share
7	IPO	Initial Public Offering
8	MCB	Muslim Commercial Bank
9	Mgt.	Management
10	Tk.	Taka
11	Vol.	Volume

List of Tables

Chapter: 1

Introduction

1.1 Introduction

“Capital Structure” is a word that indicates a proportionate relationship between debt and equity. Debt is money owed by one people to another or a sum of money that is due to other. Equity is the value attributable to the owners of a business. It includes paid up capital, share premium, reserves and surplus etc. The financial structure of an enterprise is shown by the left-hand side (liabilities plus equity) of the balance sheet. Short term borrowings are excluded from the list of methods of financing the first expenditure and therefore, the long term claims are said to form the capital structure of the enterprise.

“Capital Structure” reflects the total long term investment in a business firm. It includes funds raised through ordinary and preference shares, term loans, bonds etc. Any earned revenue and capital surpluses are include. The capital structure is made up of equity and debt securities which comprise a firm’s finance of its assets. It is the permanent financing of a firm represented by long term debt, and also with preferred stocks and net worth. The determination of the degree of the liquidity of a firm is no simple task. Cause liquidity may depend on the profitability of a firm, but whether it survives to achieve long run profitability depends to some extents on its capital structure.

The capital structure of bank still under-exposed is in banking literature. There is no clear understanding on how banks choose their capital structure and what factors influence their corporate financing behavior. It is seen that lending of large banks is less subject to changes in cash flow and capital. It is also seen that sifts in deposit supply affect lending at small banks that do not have access to the large internal capital market. Due to these relevant aspect that the present study will try to provide indebt knowledge to the concept.

Capital composition matters to most firms in free markets but there are differences. Companies in non-financial industries need capital mainly to support funding such as to buy property and to build acquire production facilities and equipment to pursue new areas of business. While this is also true for banks. Their main focus is somewhat different. By its very nature, banking is an attempt to manage multiple and seemingly opposite weeds. Banks provide liquidity on demand to depositors through the current account extend credits as well as liquidity to their borrowers through lines of credit.

Owing to these fundamental roles, banks have always been concerned with solvency and liquidity. Given the central role of market and credit risk in their core business, the success of banks depend on their ability to identify assess. Monitoring and merge these risks are sound and sophisticated way.

The competitive and regulatory pressure is likely to reinforce the central strategic issue of capital and profitability and cost of equity capital in shaping banking strategy.

In order to assess and manage risks banks must have effective ways of determining the appropriate amount of capital that is necessary to absorb unexpected losses arising from their market, credit and operational risk exposures. The profits that arise from various business activities of the banks need to be evaluated relative to the capital necessary to cover the associated risks. These two major link to capital risk as a basis to determine capital and the misplacement of profitability against risk based capital allocations explains the critical role of capital as a key component in the management of bank portfolio. The capital structure of bank is still relatively under explored are in the banking literature. There is no clear understanding on how banks choose their capital structure and what factor influence their corporate financing behavior. It is seen that lending of large banks is less subject to changes in cash flow and capital market. It is also seen that sifts in deposit supply affect lending at small banks that do not have access to the large internal capital market. The fact that large banks tend to decrease their capital and increase their lending after merger. Due to these relevant aspect that the present study will try to provide indebt knowledge to the concepts. Companies’ short and long term loan is considered when analyzing capital structure. A method of analyzing the impact of alternative possible capital structure choices on a firms credit statistics and reported financial results, especially to determine whether the firm will be able to use projected tax shield benefits fully. There are different methods of analyzing capital structure of the bank are ratios, trend analysis, common size statements, comparative statements. In this study the analysis of capital structure of some private commercial bank is done through ratios.

1.2 Objectives of the Study

The objectives of the study are broken down into two parts:

1.2.1 General Objective:

The key objective is to understand the capital structure of private commercial banks of Bangladesh.

1.2.2 Specific Objectives:

- To relate the educational knowledge into practical life.
- To examine the bank policy regarding capital structure and the effect of capital structure on the profitability of the companies in relation with various ratios.
- To help the professionals, academics who have a better understanding of the relevance of capital structure of banks.
- To fulfill the partial requirement of MBA program under National University.

1.3 Research Methodology

The data were collected from both the primary and secondary data.

- **Primary Data:** These data were collected by
  1. Face to face discussion with officers.
  2. Observations
- **Secondary Data:** These data were gathered from:
  1. Internet
  2. Research paper
  3. Final reports
  4. Company's official websites.

1.3.1 Methodology

- **Types of Study:** Descriptive study.
- **Study Area:** The study was being conducted in different private banks.
- **Data Collection:** Some data like primary data were gathered by talking with bank managers. Some secondary data were collected from various source like; banks annual report, internet etc.

1.3.2 Research Instruments

- Balance sheet of banks.
- Income statements of banks.
- Changes in equity statement.
- Other statements and financial data.
- Other publications by the bank.

1.3.3 Duration of the Collection of Data

Data collection took 2 months approximately. That is from 10^{th} February 2023 to 31th March 2023.

1.3.4 Data Analyzing Techniques

Ratios like “Debt-Equity ratio, Capitalization ratio, Solvency ratio, Interest coverage ratio, Gearing ratio and EPS were used for every calculation.

1.4 Limitations of the Study

The problem I faced during the study:

- Not every data was available due to confidential reason.
- There was a time limitation.
- Lacks of sufficient budget and information.
- I’ve missed some bank manager to talk about my study.
- Working with highly advanced technology.
- Expert’s opinions are not received.
- Maintaining secured IT infrastructure for banking operations.
- Data protection and the need for a legal and regulatory framework.
- Managing secured IT infrastructure for banking operations.

Chapter: 2

Overview of the Organizations

2.1 AB Bank Limited

Introducing Bangladesh to its very first private sector bank; AB Bank Limited was incorporated on 31st December, 1981. Arab Bangladesh Bank as formerly known started its effective operation from 12th April, 1982 with the mission to be the best performing bank of the country.

With an ambition to secure its place as the leading service provider, creating lasting value for its clientele, shareholder, and employees and particularly for the community it operates in, AB has formulated a golden heritage and an envious legacy that may not be imitated by many. Achieving plenty of milestones and incorporating numerous changes over the last 40 years, AB has always been authentic to its desire of being the technology driven innovative bank of Bangladesh. To excel this new era of technological triumph, AB has successfully introduced internet banking, SMS banking, cutting edge ICT, state-of-art network solution, 24/7 ATM service and many other e-products.

AB has extensively widened its services over the last four decades in both home and abroad. The bank opened its very first branch at Karwan Bazar on 12th April 1982 and now has a successful footprint of 105 branches including one overseas branch in Mumbai, India and 270 plus ATMs spread across the country. it has associated 5 subsidiary companies including one Off-shore Banking Unit and Custodial services with its core banking activities. The Bank opened its Representative Office at Yangon, Myanmar for extending its foreign operations.

AB took a conscious effort to rejuvenate its past identity; that is carried as Arab Bangladesh Bank Limited for 25 long years. Hence it chose to rename itself as AB Bank Limited and Bangladesh Bank put its affirmative stamp on November 14, 2007. The bank’s new logo symbolizes the blend of bonding and trust. It developed its logo with the auspicious of its vision and mission and core values with contemporary theme. The new logo represents our cultural "Sheetal pati" as it reflects the bonding with its clientele and fulfilling their every need. Thus the new spirit of AB is "Bonding".

2.1.1 Mission and Vision

Mission Statement:

"To be the best performing bank in the country"

Vision Statement:

"To be the trendsetter for innovative banking with excellence and perfection"

2.1.2 Core values

- Result-driven.
- Responsible.
- Innovative with added value.
- Friendly - Empathetic.
- Spirit of service.

2.2 Bank Asia Limited

Bank Asia Limited is a schedule Bank under private sector established with in the ambit of Bank Company Act, 1991 and was incorporated as a Public Limited Company under Company Act, 1994 on September 28, 1999. The Bank started commercial banking operations from November 27, 1999 with the inauguration of the Bank's Corporate Office at the Rangs Bhaban. A huge public response has enabled the Bank to keep up the plan of expanding its network. The opening of the principal office was the big leap forward and successively the opening of Gulshan and Chittagong branch expanded the horizon of Bank Asia to bring its services to valued clients more effectively. Within a short period, the bank has opened four more branches in Dhaka and two branches in Sylhet and Kishorgonj. In February 2001, Bank Asia took over the Bangladesh operation of The Bank of Nova Scotia, the first acquisition of a foreign bank by a local bank in the banking history of Bangladesh. Later, Bank Asia took over the Bangladesh operation of Muslim Commercial Bank of Pakistan in December 2001. These courageous moves were possible for some visionary decision makers and also dedicated team of professionals who are constantly putting their best efforts to establish the bank as one of the leading concerns in the industry.

Bank Asia has so far been highly successful in keeping its customers satisfied with its high quality service, while continuing its expansion to reach more people around the country. Bank Asia conducts all types of commercial banking activities. The Bank is involved in most of the areas of commercial banking operations. The core business of the Bank comprises of trade finance, term finance, working capital finance and corporate finance. Bank Asia has acted as the lead arranger in raising term loan for a number of projects under syndicated finance and also participated in some cases under such financing arrangement. The Bank is also providing personal credit, service related to local and foreign remittances and several other products. The "Personal Credit" scheme of the Bank, which is designed to help the fixed income group in raising standard of living is competitively priced and has been widely appreciated by the customers. Bank Asia's program under "Poverty Alleviation Scheme" delivered through rural branches in the form of micro credit is playing an important role towards socio economic development of the poor people in the rural areas.

The management of Bank Asia is determined to maintain and upgrade the quality of these resources through continuous training and upgrading technology to keep pace with market demands, new developments and practices of the competitors. Bank Asia entered the market at a time when economic policy environment of the country is poised for higher level of business activities and growth. The prevailing macroeconomic management and the government's determination to carry on reforms in the banking sector provide a supporting and encouraging environment.

2.2.1 Mission and Vision

Mission Statement:

- To assist in bringing high quality service to their customers and to participate in the growth and expansion of our national economy.
- To set high standards of integrity and bring total satisfaction to their clients, shareholders and employees.
- To become the most sought after bank in the country, rendering technology driven innovative services by their dedicated team of professionals.

Vision Statement:

- To have a poverty free Bangladesh in course of generation in the new millennium, reflecting the national dream.
- To build a society where human dignity and human rights receive the highest consideration along with reduction of poverty.

2.2.2 Core Values

- Placing the interests of clients and customers first.
- A continuous quest for quality in everything the company does.
- Treating everyone with respect and dignity.
- Conduct that reflects the highest standards of integrity.
- Teamwork- from the smallest unit to the enterprise as a whole.
- Being good citizens in the communities, in which they live and work.

Chapter: 3

The Concepts and Theory of Capital Structure

3.1Theories of Capital Structure

Before we discuss these theories, we have to know what capital structure is. A firm's capital structure is the relative proportion of debt, equity and other securities of the total financing of its In the past, several significant theories of capital structure in financial management have emerged Asset.

A business needs to plan its capital structure to optimize the application to the funds and able to adjust easily to the changing environment.

Theories of capital structure of financial management are followings-

1. Modigliani and miller's theory
2. Trade off theory
3. Pecking order theory
4. Market timing theory.
5. Net income theory.
6. Net operating income theory.
7. Agency cost theory.

3.1.1 Modigliani and Miller's Theory

Decision related to an optimal capital structure has irritated theoretician for many years. The early work made quite a few assumptions in an effort to simplify the problem and assumed that both the cost of debt as well as the cost of equity was separate from capital structure and the appropriate figure of consideration was the net income of the firm. Using these suppositions, the average cost of capital reduced by using leverage and the value of the firm improved while the value of the equity remains same. Modigliani and miller revealed that this could not be truth. Their argument was that 2 similar businesses, varying only the capital structure, should have identical total value. If they did not do, individual would engage in arbitrages and create the market forces which would make the 2 values equal.

These theory starts by assuming that the business has certain set of predicted cash flows. When a business prefers a certain percentage of financial debt and equity, it simplify divide the cash flows between investors. Investors and Corporation are assumed to have similar access to financial market. According to this theory, market value of business is based on earning power and potential risk of its main assets.

3.1.2 Trade off Theory

The term trade off theory is commonly used to describe a group of associated theories. In all these theories, a decision maker examines the different cost and advantage of alternative leverage plan. The trade off theory assumes that you can get benefit to leverage within a capital structure until the optimum capital structure is achieved. The theory acknowledges the tax advantage from interest payment.

This theory refers the two main concept-cost of financial distress and agency cost. A major objective of the trade off theory is to explain the fact that business generally funded partially with debt and partially with equity.

3.1.3 Pecking Order Theory

According to the pecking order theory, companies show. A distinct preference for utilizing internal finance over external financial internal funds are insufficient to finance investment opportunities, a company might obtain external financing but it will choose among the various external finance sources in a manner as to minimize additional costs. This theory regards the market to book ratio as a way of measuring investment opportunities. This theory is made popular by Myers and Majluf as he claims that equity is significantly less favored way to raise capital because when manager issue fresh equity, investors feel that managers think that the company is overvalued and managers are taking advantage of this over valuation. Because of this, investor will place a reduced value to the new equity issuance.

3.1.4 Market Timing Theory

This theory of capital structure states that companies time their equity issue in a way that the issue fresh stock with the stock prices are overvalued, and buy back shares when they are overvalued. As a result, variations in stock prices influence firm’s capital structure, companies do not usually care whether they finance with debt or equity, they simply pick the type of financing appears to be more valued by financing result.

3.1.5 Net Income Theory

According to this theory the cost of debt is recognized as cheaper source of financing than equity capital. The more use of debt in the capital structure lowers the total cost of capital. Debt is less expensive source of financing due to the fact that is interest is deductible from net profit before taxes. Following deduction of interest, a business has to pay reduced tax and therefore, it will reduce the weighted average cost of capital. The value of the business is higher in the case of lower overall cost of capital because of more use of leverage in the capital structure.

3.1.6 Net Operating Income Theory

According to this theory, the value of company is not impacted by the alteration of debt in the capital structure. It assumed that the gain that a company gets by infusion of debt is negated by the rise in the required rate of return by the stakeholder. With the rise in debt, the bankruptcy risk also increases and such a risk perception increases the expectations of the equity holder.

3.1.7 Agency Cost Theory

Agency cost theory developed by Jensen and Meckling in 1976, refers that optimal capital structure can be found by minimizing agency cost arising from conflict of interest among managers, owners and debt holders. First conflict between firm managers and shareholders. Firm manager directly deals with the agent on behalf of major shareholder interest. Most of the firm manager wants to run large with high probability of risk. This tends to undertake negative NPV

Projects. However, without a reward firm manager do not involve large and risky project even if they expect the project give positive NPV. This problem creates a conflict of interest between managers and shareholders. As a consequence, the agency cost problem arises. Sometime manager consumes firm valuable resources used their power (Jensen and Meckling, 1976). Second conflict between firm managers and debt holders. Managers are working for shareholders and they want to give priority shareholders interest. Manager invests risky project that will benefit for major shareholder not better for the bondholder. Bondholders also expect the manager invest safe and low return project that probability of risk is very low. Thus, firm can pay their debt on time. But firm manager chooses risky projects that indicated a high probability of losing capital. If they lose, no cash available to paid their loan. Most of the cases, shareholders prefer a firm manager invest risky project with high probability of success that they repaid their loan quickly and keep their ownership safe. If the risky project gave negative NPV, then shareholder has possibility of defaulter. They can't repay their loan on time.

Two ways are suggested to align manager's interest with owners and debt-holders interest-

- The first one is to increase the participation of the owners so that they can equally influence the decision taken by the manager.
- The second one is to increase the use of debt financing to minimize consumption in the perk.

Chapter: 4

Analytical Part

4.1 Analysis of the Studies

The finding is achieved after analyzing the following capital structure ratios of selected private commercial Bank. These ratios are as follows:

- Five years analysis of debt and equity ratio
- Five years analysis of funded debt to total capitalization ratio
- Five years analysis of solvency ratio
- Five years analysis of interest coverage ratio
- Five years analysis of capital gearing ratio
- Five years analysis of earning per share

The financial position of the firms can be studied and analyzed in two perspectives i.e., the short term financial position. The long term financial position, its composition and implication have been considered. The long term source of funds for any firms are comprising of the share holder's funds and long term resources of funds may consists of the following:

- The preference share capital.
- The equity share capital.
- The accumulated profit
- The long term debt.

The debt position of the firm indicates the amount of loans and borrowings used in generating profits. If the raised from debts earn more than the cost of these funds, then the surplus ultimately belongs to the equity shareholder's. As the debt involves firm's commitment to pay interest over the long run and eventually to repay the principles amount, the financial analyst, the debt lender, the preference shareholder's and the management will all pay close attention to the degree of indebtedness and capacity of the firm to serve the debt. The more the debt a firm use, the higher is the profitability that the firm may be unable to fulfill its commitments towards its debts lenders. The position of the debt and its implications can be analyzed in two different ways:

- As degree of indebtedness.
- As the ability to service the debt.

4.2 Measures of the Degree of Indebtedness

The measures of identifying the degree of indebtedness attempt to establish the relationship of the total liabilities or only long term liabilities with the shareholder's funds or total assets of the firm.

4.2.1 Analysis of Debt-Equity Ratio

This ratio indicates the relationship between loan and the net worth of the company, which is known as gearing. If the proportion of the debt to the equity is low, a company is said to be low geared, and vice-versa. A debt equity ratio of 2:1 is norm accepted. The higher the gearing, the more volatile the return to the shareholder's. It is calculated to measure the extent to which financing has been used in business. The object is to provide a security to outside on liquidation of the firm. An appropriate mix of the debt and equity improves the value of the firm. Usually in calculating the ratio, the preference share capital is excluded from debt, but if the ratio is to effect of use of fixed interest source on earnings available to the shareholders then it is included. On other hand, if the ratio is to examine financial solvency, then the preference shares shall from part of capital.

Debt-Equity Ratio:

Long Term debt / Share holder's funds

Table-4.2.1: Debt – Equity Ratio

Year	AB Bank Ltd	Bank Asia Ltd
2017	8.84	11.51
2018	7.92	12.96
2019	8.51	7.72
2020	8.96	8.77
2021	10.14	9.30

Source: Annual Report (2017 – 2021)

Interpretation: As per “Table 4.2.1” Debt-Equity ratio of AB Bank Ltd they have 8.84, 7.92, 8.51, 8.96 and 10.14 debt and equity ratios from year 2017 to 2021 respectively. They got consecutive increase in their ratios from year 2019 to 2021. But they faced a fall of debt-equity ratio in the year 2018. In short AB bank had a minimum stability on their debt-equity ratio.

Bank Asia Ltd had 11.51 on year 2017 which got increased to 12.96 on year 2018. But sadly the ratio falls by a great margin in the year 2019 at a rate 7.72. After that they raised their ratio from 8.77 to 9.30 to the following years (2020 to 2021). Though they managed to raise their ratios but that wasn’t good enough.

4.2.2 Analysis of Debt to Total Capitalization Ratio

The funded debt to total capitalization ratio establishes the relationship between long terms fun raised from outsiders and total long term funds available from the owners of the business. Funded debt total capitalization is also one of the important ratios that explain the capital structure position of the company. There is no standard rule for the ratio but normally the smaller the ratio the better it will be.

Total capitalization: Total Debt + Equity

Table 4.2.2: Debt-Total Capitalization Ratio

Year	AB Bank Ltd	Bank Asia Ltd
2017	0.906	0.928
2018	0.895	0.933
2019	0.902	0.894
2020	0.908	0.907
2021	0.919	0.911

Source: Annual Report (2017-2021)

Interpretation: According to “Table 4.2.2” capitalization ratio of Capitalization ratio of AB Bank Ltd is 0.906, 0.895, 0.902, 0.908, 0.919 in the years of 2017, 2018, 2019, 2020 and 2021 respectively. It shows that ratios are not stable in the years which are not good for the company itself. The dependence of AB Bank Ltd. On outsider’s long term fund is not stable, so high, which is the financial burden on firm.

Bank Asia Ltd’s capitalization ratios are 0.928 in 2017, 0.933 in 2018, 0.894 in 2019, 0.907 in year 2020 and 0.911 in year 2021. It explains that ratios are more or less stable over the years except in 2019 which are good for the company itself. The dependence of this bank on outsiders is stable.

4.2.3 Analysis of Solvency Ratio

It is a variant of proprietary ratio. It shows the relationship between total liabilities to outsiders to total assets. It provides a measurement of how likely a company will be continuing meeting its debt obligations. Acceptable solvency ratios will vary from industry to industry. Generally it is observed that the lower ratio i.e. outsider’s liabilities in the total of company the better is the long term solvency of the company.

Solvency Ratio: Total external liabilities / Total Assets

A table is showing down below which will contain the solvency ratios of the 2 banks mentioned earlier.

Table-4.2.3: Solvency Ratio

Year	AB Bank Ltd	Bank Asia Ltd
2017	0.873	0.914
2018	0.859	0.921
2019	0.868	0.883
2020	0.878	0.903
2021	0.895	0.906

Source: Annual Report (2017 to 2021)

Interpretation: According to the 'Table 4.2.3' the solvency of AB Bank Ltd is highly volatile. In year 2017 it was 0.873 but in 2018 it decreased to 0.859 again in 2019 it increased to 0.868, in 2020 it was 0.878 and in 2021 it was 0.895.

The solvency ratio of Bank Asia Ltd was 0.914 in 2017, 0.921 in 2018, 0.833 in 2019, 0.903 in 2020 and 0.906 in 2021. It means the solvency ratio of Bank Asia Ltd is moderately volatile.

4.2.4 Analysis of Interest Coverage Ratio

The employment of debt financing by firm must be examined not only in relation to the share-holders funds but equally important is the consideration of the firm's capacity to service the debt. The ability to service the debt refers to how easily and readily the firm will be able to meet its communities in respect of contractual interest payment and repayment schedule. The firm's ability to service the fixed liabilities can be measured with the help of coverage ratios. The coverage ratios establish the relationship between fixed claims and the firm's profitability to the level of debt payments to assess the degree of comfort with which the firm can meet these payments.

Interest Coverage Ratio: EBIT / Interest

Table-4.2.4: Interest Coverage Ratio

Year	AB Bank Ltd	Bank Asia Ltd
2017	1.84	1.51
2018	3.47	1.66
2019	1.28	1.42
2020	1.25	1.28
2021	1.21	1.31

Source: Annual report (2017-2021)

Interpretation: As per ‘’Table-4.2.4’’, Interest coverage ratio of AB Bank Ltd was 1.84 in 2017 but it increased to 3.47 in 2018 and again decreased 1.28 in 2019. 1.25 in 2020 and 1.21 in year 2021.

Interest coverage ratio of Bank Asia Ltd was 1.51in 2017 but it increased to 1.66 in 2018 and again decreased 1.42 in 2019. 1.28 in 2020 and 1.31 in year 2021.

This clearly describes that neither bank has any stability in interest coverage. But AB Bank Ltd had earnings increased the interest to be paid whereas Bank Asia Ltd has earnings decreased due to interest to be paid.

4.2.5 Analysis of Capital Gearing Ratio

Capital gearing means maintaining the desired and proper proportions between various types of securities in the capital structure of the company. In other words, taking the decision regarding the ratio of capital to be made available by various sources, in total capitalization is known as capital gearing. By assessing capital gearing, any institution may obtain capital at the lowest costs. Profit earning and fluctuations may be regulated by it.

Capital Gearing Ratio: Equity / Funded debt

Table -4.2.5: Capital Gearing Ratio

Year	AB Bank Ltd	Bank Asia Ltd
2017	**0.104**	**0.078**
2018	**0.116**	**0.072**
2019	**0.107**	**0.119**
2020	**0.102**	**0.102**
2021	**0.098**	**0.098**

Source: Annual Report (2017 – 2021)

Interpretations: According to “Table 4.2.5”.Capital gearing ratio of AB Bank Ltd was 0.104 in 2017, 0.116 in year 2018, 0.107 in 2019, 0.102 in 2020 and 0.089 in 2021.

Capital gearing ratio of Bank Asia Ltd was 0.078 in 2017, 0.072 in year 2018, 0.119 in 2019, 0.102 in 2020 and 0.098 in 2021.

It shows that AB Bank Ltd had the greatest fluctuation on the changing rate of gear ratio than Bank Asia Ltd.

4.2.6 Analysis of Earning Per Share (EPS)

The profitability of the shareholder s investment can be measured in various ways. One such way is calculating earnings per share (EPS). EPS calculations are made over years indicate whether or not the firm’s earning power on per share basis has changed over that period. The EPS of any company should be compared with the industry average and the earning per share of other firms. EPS simply shows the profitability of the firm on a per share basis. It doesn’t reflect how much is paid as dividend and how much is retained in the business. But as a profitability index it is a valuable and widely used ratio.

EPS: Net income / No. of shares

A table is drawn below which contains the EPS of the respective banks on which the study is going on.

Table -4.2.6: Earning Per Share

Year	AB Bank Ltd	Bank Asia Ltd
2017	13.11	6.19
2018	10.03	4.59
2019	3.60	3.65
2020	2.89	1.31
2021	2.03	2.10

Source: Annual Report (2017-2021)

Interpretation: According to the "Table 4.2.6" AB Bank Ltd had EPS of 13.11 in 2017. But in the next years the ratio of EPS gradually fell down to an edge. That is 10.03 in 2018, 3.60 in 2019, 2.89 in 2020 and 2.03 in 2021.

EPS of Bank Asia Ltd was 6.19 in 2017, 4.59 in 2018, 3.65 in 2019, 1.31 in 2020 and 2.10 in 2021.

It is showing that EPS earnings of two banks decreasing from 2017 to 2019. Then again EPS is increasing from 2021. If the effect of access investments of banks in capital market in the year 2017. Then banks reduce their investment in capital market their EPS also decreased.

Chapter: 5

Findings, Recommendations and Conclusion

5.1 Findings:

Findings are given below:

1. From the analysis it is seen that debt equity ratio & debt total capitalization ratio of AB Bank Ltd is going up continuously except 2018.
2. From the analysis it is also seen that the solvency ratio of AB Bank Ltd is increasing continuously.
3. From the analysis it is seen that the interest coverage ratio of AB Bank Ltd is going down excepting 2018.
4. From the analysis it is seen that the capital gearing ratio and EPS of AB Bank Ltd both are going down continuously.
5. From the analysis it is seen that the debt equity ratio, debt totals capitalization ratio and solvency ratio of Bank Asia Ltd going high except year 2019.
6. From the analysis it is seen that the interest coverage ratio, capital gearing ratio EPS of Bank Asia Ltd are going down.

5.2Recommendations:

Recommendations are given below:

1. AB Bank Ltd should keep up this trend of equity financing as its debt equity ratio is going up.
2. AB bank Ltd should reduce the investment in capital market.
3. AB Bank Ltd has high capitalization ratio. So it should keep equity financing.
4. Bank Asia Ltd should continue this trend of debt financing as its debt equity ratio is high.
5. Bank Asia Ltd has high capitalization ratio & interest coverage ratio. So it should keep the equity financing.
6. Bank Asia Ltd should reduce the investment in stock market to avoid volatile in earnings.

5.3Conclusion:

In today’s world of business without banks co-operation, it is almost impossible to run any business or production unit of business. AB Bank Ltd and the Bank Asia Ltd are playing a vital role in financing activities of the country and helping the business by providing funds to run.

There are lots of banks competing in banking industries in Bangladesh. In this competitive market AB Bank Ltd & Bank Asia Ltd have to compete not only others commercial banks but also public banks and other financial institution.

From this analysis it is seen that these banks have dependence on debt financing. But AB Bank Ltd, Bank Asia Ltd has the high enough ability to repay this debt. At the same time, these banks are also focusing on increasing equity financing.. It is also seen that these banks have a large amount of investment in the stock market as a result their EPS is volatile as the price stock market.

To survive in this dynamic market and lead it from the front the bank must take every initiative very wisely and so far they have successfully utilized their human resources efficiently.

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Appendix I

AB Bank Limited

Calculation of debt equity ratio of AB Bank Ltd

Year	Long term debt	Stakeholders fund	Ratio
2017	89212290452	10086522932	8.84
2018	109902331007	13866508216	7.92
2019	126400053712	14852700507	8.51
2020	143675215674	16033805870	8.96
2021	171833767347	16940049066	10.14

Calculation of total debt-total capitalization ratio of AB Bank Ltd

Year	Total debt	Total capitalization	Ratio
2017	96825789451	106912312383	.906
2018	118824696515	132691204731	.895
2019	138110136164	152962836671	.902
2020	157808621915	173842427785	.908
2021	191065494672	208005543738	.919

Calculation of solvency ratio of AB Bank Ltd.

Year	Total external liabilities	Total asset	Ratio
2017	93283820316	106912312383	.873
2018	114056498652	132691204730	.859
2019	132819020627	152962836671	.868
2020	152649721086	173842427785	.878
2021	186079128025	208005543738	.895

Calculation of interest coverage ratio of AB Bank Ltd

Year	EBIT	Interest	Ratio
2017	11344010758	6139114501	1.84
2018	12716263312	3658862124	3.47
2019	13394079840	10436688668	1.28
2020	15781786144	12591500175	1.25
2021	17158159832	14173526482	1.21

Calculation of capital gearing ratio of AB Bank Ltd

Year	Equity	Funded debt	Ratio
2017	10086522932	96825789451	.100
2018	13866508216	118824696515	.110
2019	14852700507	138110136164	.100
2020	16033805870	157808621915	.101
2021	16940049066	191065494672	.088

Calculation of earnings per share of (EPS) of AB Bank Ltd

Year	Income available for common Stockholder	No. of common share	EPS at 10 take face value
2017	3362556000	256429192	13.113
2018	3696017105	368496222	10.030
2019	1327983705	368884362	3.600
2020	143853813	497763949	2.890
2021	1010997314	498028233	2.030

Appendix II

Bank Asia Ltd

Calculation of debt equity ratio of Bank Asia Ltd

Year	Long term debt	Stakeholder ratio	Ratio
2017	57011266801	4954144557	11.51
2018	91529413119	7059943201	12.96
2019	96357841894	12478933539	7.72
2020	114486774270	13045170346	8.77
2021	136034130298	1461770417	9.30

Calculation of total debt-total capitalization ratio of Bank Asia Ltd

Year	Total debt	Total capitalization	Ratio
2017	63709055419	68663199976	.926
2018	98138106947	105198050148	.933
2019	105250474466	117729408006	.894
2020	127316204222	140361374568	.907
2021	149160039385	163777743402	.911

Calculation of solvency ratio of Bank Asia Ltd

Year	Total external liabilities	Total asset	Ratio
2017	62766478207	68663199976	.914
2018	96844603317	105198050148	.921
2019	103928292798	117729408006	.883
2020	126681583078	140361374568	.903
2021	148400292912	163777743402	.906

Calculation of interest coverage ratio of Bank Asia Ltd

Year	EBIT	Interest	Ratio
2017	6784209282	4498016814	1.51
2018	9000104953	5420584211	1.66
2019	11634865154	8202658439	1.42
2020	12339346328	9616349333	1.28
2021	14686610590	11166022060	1.31

Calculation of Capital gearing ratio of Bank Asia Ltd

Year	Equity	Funded debt	Ratio
2017	4954144557	63709055419	.078
2018	7059943201	98138106947	.072
2019	12478933539	105250474466	.119
2020	13045170346	127316204222	.102
2021	146177704017	149160039385	.098

Calculation of earnings per share (EPS) of bank Asia Ltd

Year	Income available for common stockholder	No. of common share	Ratio
2017	1327184458	214407828	6.19
2018	1929582157	420388269	4.59
2019	1916214381	524990241	3.65
2020	907996995	693127477	1.31
2021	1459817905	695151383	2.10