

# Analysis of Financial Performance of the Banking sector



Final Internship Report on

# **Analysis of Financial Performance of the Banking sector**

Submitted to:

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Date of Submission: 26 August2013



25August, 2013

Mrs. Mahtab Faruqui  
Senior Lecturer  
BRAC Business School  
BRAC University

**Sub: Submission of final internship report for completion of BBA Program**

Dear Miss,

I am pleased to submit my Internship Report on “Applications of Financial Performance of the Banking Sector”. This report was part of my assignment during my tenure at Non- Residential Bank Limited.

I have prepared the report through working with my supervisor (at Non Residential Bank Limited) and consulting with you. I am submitting my internship report and I will be grateful enough if you kindly accept myreport.Thank you.

Yours Sincerely,

Samira Siddique  
ID: 09204103  
BRAC Business School

### **Acknowledgements**

I would like to show my humble gratitude to all the individuals who have helped me to prepare this report during the last three months. I express my special gratitude to my honorable teacher, Mrs. Mahtab Faruqui for her supervision in preparing the report. She has guided me in coordinating the whole report.

I take the opportunity to express my sincere gratitude and respect to Mr Takiyan Chowdhury, Assistant Vice President of Human Resource Department, Head Office of NRB Bank for accepting me to work in this bank and also for guiding me throughout my tenure.

My heartiest gratitude go to Mr. Aftab Mahmud Khurshid Head of Brand and Communication of NRB for his constant support, guidance and supervision for my preparing the report for my Internship on my work in NRB Bank.

Finally, my heartfelt thanks and gratitude for all of those instructors of BRAC University with whom I did courses and who have given me the valuable education to help me in the practical working life.

## **Executive Summary**

NRB Bank is one of the fourth generation private sector banks to have begun operations in 2013, where local meet global. Bringing together a passionate and entrepreneurial group of NRB investors from all over the world, NRB Bank aims to be the leading dedicated financial institution for NRB's to invest in Bangladesh and for Bangladeshi individuals and corporate to access international market.

NRB Bank offering Corporate, SME, Retail banking, NRB and Premium banking to meet the needs of a broad customer base. With a mission on building long term commitment with our clients, NRB Bank will be providing the right solutions that combine professionalism, expertise and financial strength, and aims to be the preferred provider of financial services. We demonstrate our bank with the motto "Not just another Bank" through our Values Dynamic, Innovative, Global, Integrity and Techno- Centric to create distinct financial Bank locally and internationally

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# *Chapter 1*

## Introduction

## **1.0 Introduction**

This paper is intended to provide an improved analytical framework to present the different aspects of performance. The framework divides the analysis into five different but interrelated ratios of the health of the institution, and uses a time-series to analyze any positive or negative trends. The different type of ratios are:

- (i) Profitability:
- (ii) Growth
- (iii) Efficiency and return
- (iv) NPL ratio

## **1.1 Origin of the report**

As a mandatory requirement of the Bachelor of the Business Administration (BBA) program under School of Business at BRAC University, Bangladesh this report titled -“**Analysis of Financial Performance of the Banking sector**” is a scheme depiction of the twelve week long internship program at NRB Bank Ltd.

The organization attachment started on April 15, 2013 and finished on July 15, 2013. My organization supervisor Mr. Takiyan Chowdhury assigned me the topic of the term paper & my institution supervisor at BRAC University, Bangladesh Mrs. Mahtab Faruqui, duly approved it. The report will definitely identify how the corporate world really works and how the banking sector is performing and will help to apply theoretical knowledge in the practical life.

## **1.2 Statement of the Problem**

NRB Bank has been established with the objective of developing the Bank’s business and interests in the country. If the bank can run effectively, the development of Bangladesh will be even greater.



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### **1.3 Objective of the report**

The purpose of this report reflects the internship purpose. The internship's objective is to gather practical knowledge and experience in the corporate working environment with the close association to the business firm and the experts who are leading and making strategic decisions to enhance the growth of a financial institution. This report is contemplating the knowledge and experience accumulated from internship program. With the set guidelines and proposal provided by BRAC Business School of BRAC University and with the kind advice of both the Organization and Internship Supervisor this report comprise of an organization part and a report part.

The prime objective of organization part is to present an overview and brief introduction of NRB Bank.

The prime objectives of project part are:

- To know about the current situation of Banks in Bangladesh
- To provide an idea about how profitable this business is
- To analyze the other products and services offered by the competing bank
- To find the reason and relationship of different factors of the ratios.

## 1.4 Scope of the Study

The scope of this report is limited to the overall description of the company, its services, its functions and its financial performance analysis. Since NRB Bank has just started its journey it still has a long way to go. To achieve there long term goal it must take every step very carefully. The report will mainly focus on what the other banks in the market are doing wrong and what NRB should do to be more successful.

## 1.6 Methodology

Both the primary as well as the secondary form of information was used to prepare the report. The details of these sources are highlighted in the following.

### Secondary Sources

Sources of secondary data can be defined as:

#### Internal Sources

- Bank's Annual Manual
- Bank's Website
- Brochures
- Prior research report and any information and literature regarding the banking sector

#### External Sources

- Different books and periodicals related to the banking sector
- Bangladesh Bank Report
- Newspapers
- Website information

## **1.7 Limitations of the study**

An Intern has to complete the internship and prepare an internship report within a semester.

Briefly, I faced following limitations during the time of preparing this report.

Since I was doing my internship on a new bank which has not launched yet most of the information were not available. I was told to analyze last 5 years financial analysis of any 5 listed bank in the market, to have an idea about the current situation of the Banking industry. I had great difficulty preparing an internship report since most of the information are from secondary source.

- I had to collect most of the information from the website to complete this report
- Due to time shortage, details of many ratios or aspects of the services of NRB Bank have been ignored in this report.
- Another main barrier in writing the report was data confidentiality. Though the Bank's internal procedure that is being used in processing and evaluating any documentary credit, I was advised not to disclose that in my internship report.

# *Chapter 2*

## Organization Overview

## **2.0 NRB Bank**

On April 4, 2012, the Bangladesh Bank (BB) approved three new banks, the sponsors of all of which are Non-resident Bangladeshis. Following this six more banks were approved on April 8, 2012. The six most recently approved were drawn from a short-list of 16, of a total of 37 applications. Meanwhile, the three approved Non-resident Bangladeshi bank applications were drawn from a pool of five Non-resident Bangladeshis bank applicants.

NRB Bank is one of the fourth generation private sector banks to have begun operations in 2013, where local meet global. Bringing together a passionate and entrepreneurial group of NRB investors from all over the world, NRB Bank Ltd aims to be the leading dedicated financial institution for NRB's to invest in Bangladesh and for Bangladeshi individuals and corporate to access international market.

NRB Bank is a financial institution currently offering corporate and consumer banking, SME banking, NRB and Premium banking to meet the needs of a broad customer based. With a mission on building long term commitment with our clients, NRB Bank will be providing the right solutions that combine professionalism, expertise and financial strength, and aims to be the preferred provider of financial services, Globally. We demonstrate our bank with the motto "Not just another Bank" through our values, Dynamic, Integrity, Global customer centric, Innovative, and Technology oriented to create distinct financial bank locally and internationally.

### **2.1 NRB Bank Today**

NRB Bank has recently started its operation in Dhaka. In Dhaka 4 August 2013, NRB Bank has recently launched their first branch in Dhaka located at Gulshan 2 (NB Tower, 40/7, North Gulshan Avenue, Gulshan 2), Dhaka 1212. This is located absolutely centre point of Gulshan so that customer can enjoy the great convenience for their banking needs & financial solutions. By

this year NRB Bank plans to open its second branch at Gulshan 2, and another Branch at moulovi bazaar, sylhet.

### **2.3 NRB Bank's vision**

To be the leading dedicated financial institution for NRBs to invest in Bangladesh and for Bangladeshi individuals and corporate to access international markets.

### **2.4 NRB Bank's Mission**

NRB Bank aims to be the preferred provider of targeted financial services as a conduit for investment to and from Bangladesh for our Bangladeshi communities both domestically and internationally, to accelerate the industrialization of Bangladesh.

We will strengthen these relationships by providing the right solutions that combine professionalism, expertise and financial strength.

### **2.5 NRB Bank's Values**

We demonstrate our bank with the motto "Not just another Bank" through our values, Dynamic, Integrity, Global, Innovative, and Technology oriented to create distinct financial bank locally and internationally

Dynamic- We shall perform better than our competitors. "Dynamic Performance" is not only about the outcome we achieve but how we accomplish them.

Integrity - Sincerity, Reliability and transparency is important to us since we believe in creating a sustainable relationship with our customers.

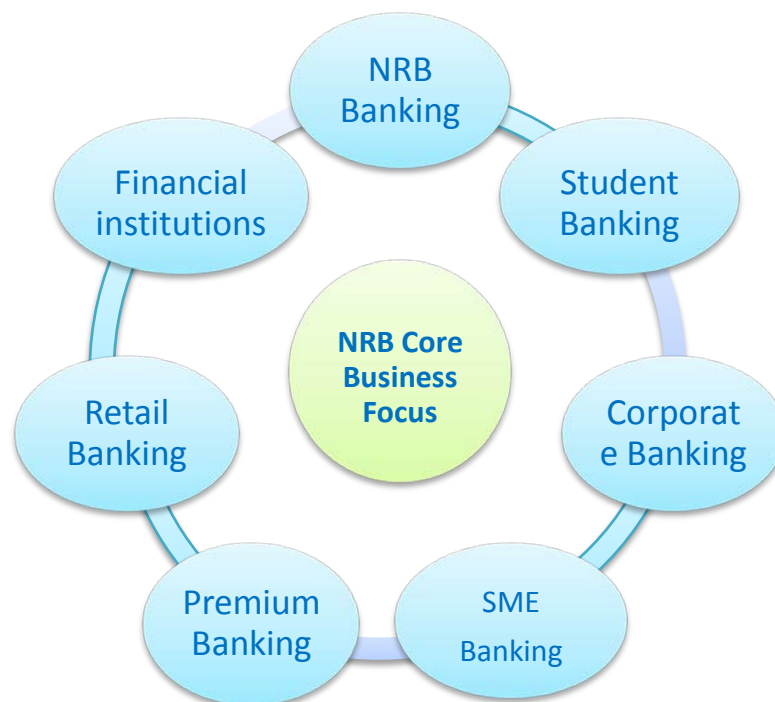
Global- we are a strong partner giving our customers access to the world's financial community.

Innovative- We promote an innovative culture and attitude. We think differently and strive to apply innovative thinking and creativity to everything we do. We believe that Innovation is the key driver for our growth

Techno- centric - In view of the fast changes, the continuous introduction of new technologies and changes in customers' expectations, NRB Bank states that advanced technologies shall rule our service delivery

## 2.4 Products offering:

The NRB Bank Head Office is at Gulshan 1 and plans to open 5 Branches within this year. It has already inaugurated its Main Branch at Gulshan 2 and is offering full range of services there. In the other branches we plan to offer specific services which are appropriate for the location. Currently the products that NRB is offering are:

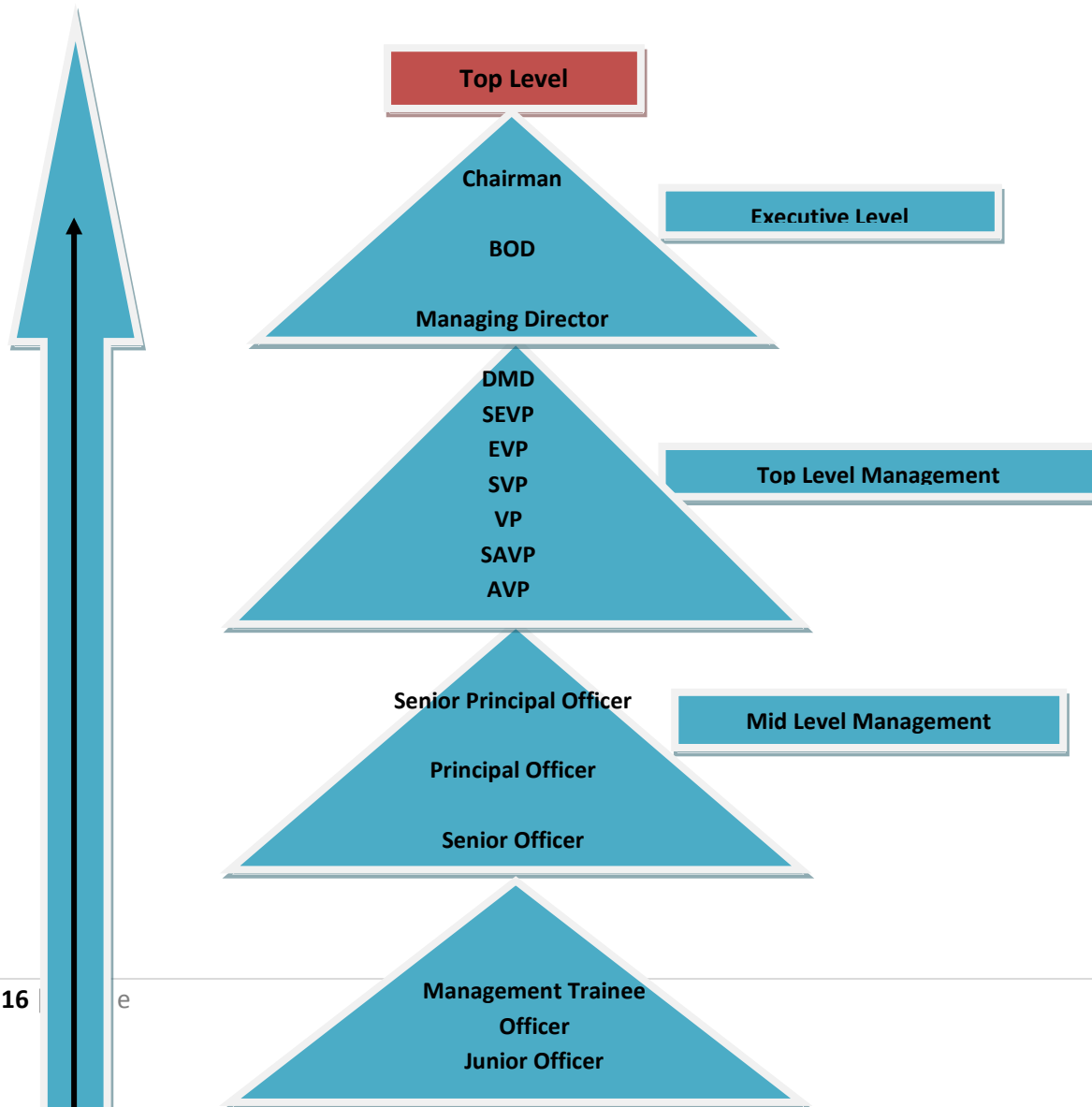


All employees are experienced and energetic with varying backgrounds, cultures and ideas NRB Bank plans on building a dynamic high performance organization. They are committed to

excellence in customer service, to delivering consistently superior performance and to building shareholder value. The employees' values are based on trust, teamwork, commitment and pride of the organization.

## 2.5 Management

The goal of NRB Bank is "To be your trusted Financial Advisor". Towards that goal of helping customers balance their risk and opportunities so that they can add value, the Management Committee (MANCOM) does the overall planning in the organization in the headquarters level in Dhaka, headed by CEO and consisting of the business heads of Corporate Banking, Consumer Banking, the heads of Human Resource, Operations, Brand and Communication Finance and Legal & compliances. They meet once a month, or when special issues arise, to plan the strategic decisions.





## 2.6 SWOT ANALYSIS OF NRB BANK

### Strengths

- Experienced top management & personnel.
- Global connection

### Weakness

- Fierce competition in the industry as three banks are already in the market in the same category (NRB)
- New rule of Bangladesh Bank of ratio of branches in rural : urban being 1:1, which was 5:1
- Time constraint in launching branches
- Board of Directors are not always available since most of them are NRB's

### Opportunities

- Growth rate of Remittance is very high
- Non-resident Bangladeshi have easier access to Non-resident Bangladeshi communities and associations, than do local private banks operating in Bangladesh.
- At least 40% of money sent back home by Bangladeshi overseas travels is through the hundi channel. This is a USD 10 billion dollar plus market – the potential market for Non-resident Bangladeshi Banks. Source: BRAC EPL Research ; April 09, 2012

### Threats

- World economy is facing a crisis and the bank is also exposed to the crisis
- The banking sector becoming more and more competitive and emergence of new banks
- The recent increased rate of default loans in the banking sector shows that a group of borrowers have been practicing high level of defaults
- Increase marketing and branding cost because of high competition

# ***Chapter 3***

## **Job Description**

### 3.1 Job Nature and Description

As an intern in NRB Bank Limited I got the chance to work in different departments where my duties varied. As the company was a start-up, there were several tasks to be carried out. My main focus initially was on the **Financial** part. Main duties were,

- analyzing the other banks in the country
- to have a bird's eye view of the industry
- to have a better understanding about the profitability, efficiency and liquidity of the existing Banks

After the Official Launching ceremony of the Bank I was transferred to the HR department to establish and maintain administrative systems and processes and other activities like;

- Assist in implementing HR policies and procedures
- Co-ordinate all recruitment activities and induction process for new joiners
- Maintain personal details of all new staff members and updating and accurately maintain data

Later on I was transferred to the Brand and Communication Department to have a better understanding about Brand and marketing related activity. As an intern in the Brand department my job was to:

- To keep track of competitors advertisement and marketing activities
- To develop the Bank's core values
- Coordinating with different functional departments to ensure smooth and on time supply of products and other communication materials
- Working with different agencies to develop communication materials, promotion & packaging design, events & different activations

# ***Chapter 4***

## **Project**

## 4.1 Introduction

Banking is one of the most sensitive businesses all over the world. Banks play an important role in the economy and are considered as the backbone of an economy in every country and Bangladesh is no exemption. Banks are custodian to the assets of the general masses. The banking sector plays a significant role in a contemporary world of money and economy. It influences and facilitates many different but integrated economic activities like resources mobilization, poverty elimination, production and distribution of public finance.

Monetary policy and banking system play an important role in the development of all economic fields of the country because necessary finances for completion of economic plans are provided by them. Therefore an organized banking system and the financial institutions play an active role in this matter. In Bangladesh, the banking sector dominates the financial sector and it contributes to economic growth by efficiently allocating investment funds among competing alternative uses, by raising the rate of capital formation by separating the act of saving from the act of investment, as well as by providing incentives for increased savings and investment<sup>1</sup>. The overall performance of bank does not merely depend upon the banking industry itself but also on the performance of economy wherever it is operating. The banking sector in Bangladesh is disparate from the banking sector as seen in developed countries. This is one of the foremost service sectors in Bangladesh economy. to know more about this sector an analysis has been done on 5Banks to have better overview of the banking industry. They are:

**Mercantile Bank** - Mercantile Bank Limited emerged as a new commercial bank to provide efficient banking services and to contribute socio-economic development of the country. The Bank commenced its operation on June 2, 1999. MBL focused on core banking business, made good growth in profitability and maintained a sound asset quality. The Bank remained financially strong by dint of its resolute focus on the vision of becoming country's finest corporate citizen and also emphasizing its' focus on commercial banking and financing business, SME, Retail Consumer and relentless pursuit of providing excellent and need-based customer service.

**Al Arafah Islami Bank**- Al-Arafah Islami Bank started its journey in 1995 with the said principles in mind and to introduce a modern banking system based on Al-Qur'an and Sunnah. A group of established, dedicated and pious personalities of Bangladesh are the architects and directors of the Bank. Among them a noted Islamic scholar, economist, writer and ex-bureaucrat of Bangladesh government Mr. A.Z.M Shamsul Alam is the founder chairman of the bank. His progressive leadership and continuous inspiration provided a boost for the bank in getting a foothold in the financial market of Bangladesh. A group of 20 dedicated and noted Islamic personalities of Bangladesh are the member of Board of Directors of the bank. They are also

noted for their business acumen. Al-Arafah Islami Bank Ltd. has 78 branches and a total of 1711 employees (upto December 2010). Its authorized capital is Taka 5000 millions and the paid-up capital is Taka 4677.28 millions

**Bank Asia** - Bank Asia has been launched by a group of successful entrepreneurs with recognized standing in the society. The management of the Bank consists of a team led by senior bankers with decades of experience in national and international markets. The senior management team is ably supported by a group of professionals many of whom have exposure in the international market. The asset and liability growth has been remarkable. Bank Asia has been actively participating in the local money market as well as foreign currency market without exposing the Bank to vulnerable

positions. The Bank's investment in Treasury Bills and other securities went up noticeably opening up opportunities for enhancing income in the context of a regime of gradual interest rate decline.

Bank Asia Limited started its service with a vision to serve people with modern and innovative banking products and services at affordable charge. Being parallel to the cutting edge technology the Bank is offering online banking with added delivery channels like ATM, Tele-banking, SMS and Net Banking. And as part of the bank's commitment to provide all modern and value added banking service in keeping with the very best standard in a globalize world.

**Dutch Bangla Bank Limited**- Dutch-Bangla Bank started operation is Bangladesh's first joint venture bank. The bank was an effort by local shareholders spearheaded by M Sahabuddin Ahmed (founder chairman) and the Dutch company FMO.

DBBL was the first bank in Bangladesh to be fully automated. The Electronic-Banking Division was established in 2002 to undertake rapid automation and bring modern banking services into this field. Full automation was completed in 2003 and hereby introduced plastic money to the Bangladeshi masses. DBBL also operates the nation's largest ATM fleet and in the process drastically cut consumer costs and fees by 80%. Moreover, DBBL choosing the low profitability route for this sector has surprised many critics. DBBL had pursued the mass automation in Banking as a CSR activity and never intended profitability from this sector. As a result it now provides unrivaled banking technology offerings to all its customers. Because of this mindset, most local banks have joined DBBL's banking infrastructure instead of pursuing their own.

**Trust Bank**- Trust Bank Limited is one of the leading private commercial banks having a spread network of 73 branches, 7 SME centers, 109 ATM Booths and 60 POS in 50 Branches across Bangladesh and plans to open more branches to cover the important commercial areas in Dhaka, Chittagong, Sylhet and other areas in 2012. The bank, sponsored by the Army Welfare

Trust (AWT), is first of its kind in the country. With a wide range of modern corporate and consumer financial products Trust Bank has been operating in Bangladesh since 1999 and has achieved public confidence as a sound and stable bank.

Trust Bank is a customer oriented financial institution. It remains dedicated to meet up with the ever growing expectations of the customer because at Trust Bank, customer is always at the center.

## **4.2 Objective**

NRB Bank is one of the new Bank in the industry and therefore has to face a lot of challenges. The Non residential Bangladeshi is a very lucrative section, and if the company can Brand it properly and understand the fruits such a division can provide it will be profitable for them. . In Bangladesh, the banking sector dominates the financial sector and it contributes to economic growth by efficiently allocating investment funds among competing alternative uses, as well as by providing incentives for increased savings and investment. Thus the objective of the study is to understand the the profitability of this industry. By learning through other Bank's success and mistakes what strategic decision this bank can make. Apart from this, some broad objectives of this report are as follows:

- To have a better idea about the profitability and efficiency of the banks in this industry.
- To learn from the mistakes of other banks, and to have a an overview of how the whole industry is performing.
- To understand the operations and need for a Non- Residential Bank in the country

## **4.3 Significance of the Study**

The banking sector is increasingly becoming competitive in Bangladesh. Every bank has to be on top of what they are doing and thus maximize the share of this sector (also known as share of wallet in the industry). To be proactive in every decision, information is the key to be on top to forecast future business conditions. As a result, before getting into the industry it is better to gather information to present a view of future prospects and risks.

Part of being competitive is expansion of branches, placing branches in the right location, branding one bank properly, or setting the target customer correctly and this is another key role where doing a research plays in providing the best possible combination of solution. Proper presentation and exploitation of information is the key and the basis for providing valuable decision that ultimately determines whether the company will add or lose value.

The heads of the managing and executing committee of the bank always needs to be updated with the performance of the bank and new emerging competition. And this research will give them a a birds eye view of the whole industry, along with a better understanding of the whole industry. It will help in deciding which sector is currently performing well and what the bank should do to minimize risk

## 4.4 Analysis

### Study on Financial Markets

- Annual business guideline
- Performance and benchmark study of the bank with other competitive banks of the same generation/category
- Business trend analysis and forecasting
- Guideline for investment
- Identify areas of core risk management



## Mercantile Bank

### Company Summary

Current Price (as on 05 May 2012)

Number of Shares

52- week Price Range (BDT)

Cash Dividend

### Profitability

	2008	2009	2010	2011	2012
Interest income/ total income (%)	74.2%	73.5%	68.7%	68.9%	75.3%
Non- interest income/ total income (%)	25.8%	26.5%	31.3%	31.1%	24.7%
Net Interest Margin		2.40	2.42	1.86	1.65

### Growth

Growth in assets		18.31	31.70	33.75	32.16
Growth in loans and advances		11.23	37.44	20.52	17.01
Growth in deposits		19.79	32.74	27.62	25.51
Growth in earnings		31.11	76.51	21.67	-20.34

### Efficiency and return

Operating efficiency (cost to income ratio)	44.15	45.25	40.83	42.62	45.17
Loan/ Deposit	93.63	86.94	90.02	85.01	79.26
ROE	17.75	18.80	19.84	17.95	12.65
ROA	1.10	1.22	1.64	1.49	0.90

### NPL ratio

	2008	2009	2010	2011	2012
Non performing loans	1,242.47	1,252.05	1,187.81	2,084.62	4,090.92
Non performing loans to total loans and advances	2.86	2.59	1.79	2.61	4.37

### Capital position

Core Capital- Tier I	3,470.92	4,236.52	7,100.80	8,834.97	10,216.87
Supplementary Capital- Tier II	660.29	758.91	1,583.52	1,794.40	1,861.99
Capital Adequacy Ratio (CAR)- Basel II (%)	10.2%	10.5%	9.1%	10.5%	10.8%
Capital Adequacy Ratio- Basel I					

## Profitability

Particulars	2008	2009	2010	2011	2012
Interest Income	5,106.01	6,066.17	6,837.90	9,732.68	12,545.34
Interest Expenses	4,045.97	4,755.90	5,176.00	8,022.13	10,556.79
Non Interest Income	1,771.51	2,181.64	3,113.91	4,391.69	4,122.22
Non Interest expenses	1,250.02	1,580.21	1,928.69	2,600.57	2,759.98
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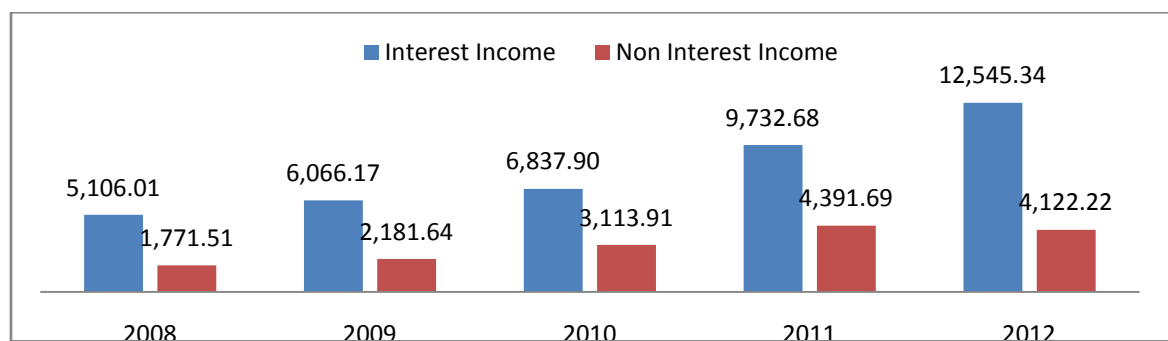
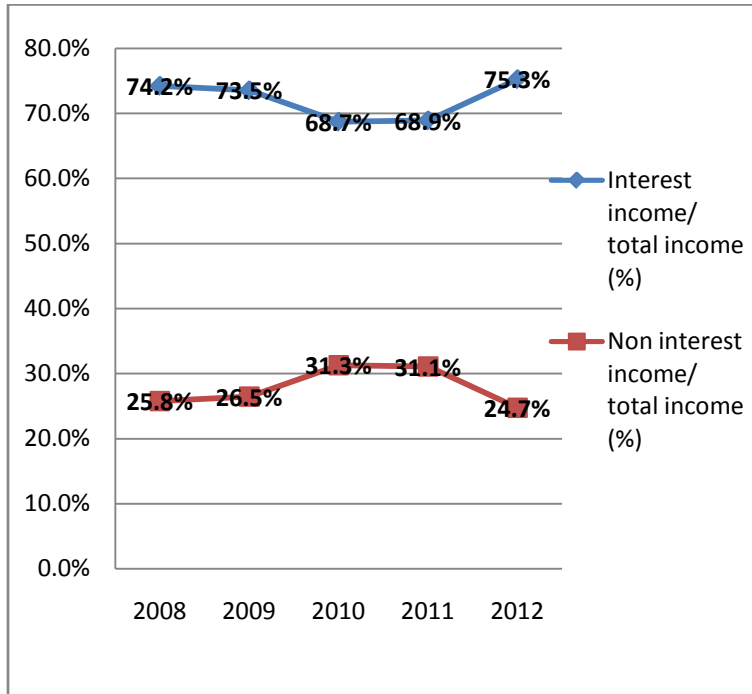


Figure 1: Interest income and non- interest income for 2008- 2012.

Interest income and non- interest income was BDT 5106.01 million and BDT 1771.51 million respectively in 2008. MBL's total income's (interest and non interest income) 74.2% consisted of interest income and 25.8% from non interest income. However at 2009 the percentage of interest income decreased to 68.7% and non interest income increased by 26.5%, though, the Bank's non interest income's growth was 42.7% for this year, the interest income growth decreased to 6.1%. As a result, Interest income as a percentage of total income has decreased to 68.7% in 2010 from 74.2% in 2008. This can be explained by the fact that non-interest income has increased by a higher percentage during the two years. Non- interest income mainly consists of commission, exchange, brokerage and other operating income. At 2010, the Bank decreased its interest income further to a negative 4.8% and increased non- interest income by 4.78%. The bank was giving more importance to its non interest income than interest income in these years.

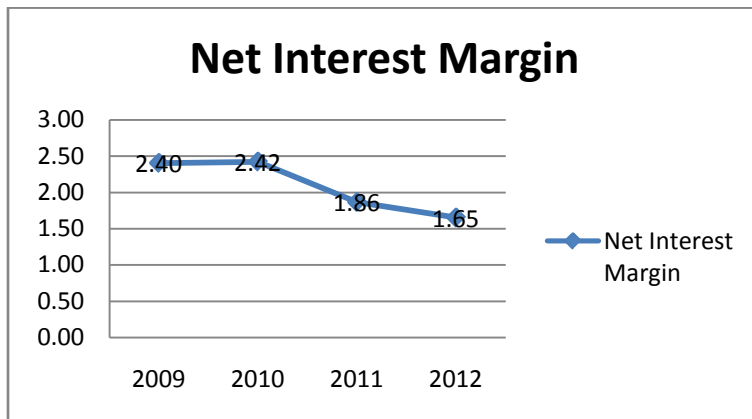
Although, Non- interest income increased during the years of 2008-2010, it holds a lower percentage of total income in 2011 and 2012. In the year 2011, the interest and non-interest income, both increased by 42%, and the percentage of interest income and non- interest income to total income remained constant like the previous year. However at the year 2012,

they had a negative growth of non interest income and a moderate growth at interest income. In the following year the bank gave more preference to its interest income than non interest income, due to higher growth in asset.



The decrease in non-interest income in 2011 is due to a higher increase in interest income, whereas the total income from commission, exchange and brokerage decreased from Tk. 1439.016 million in 2011 to Tk. 1370.181 million in 2012. With the increase in their interest income and decrease in the non interest income, MBL's net interest margin fell to 1.86% and 1.65% in 2011 and 2012 respectively. These amounts are much worst from the preceding years. Therefore, the Bank should balance its interest and non interest income like 2010's, cause they had the highest net interest margin that year.

Figure 2: Percentage of interest and non- interest income to total income



Net interest margin stood at 1.65% in 2012. It is calculated by taking the net interest income as numerator and average interest bearing assets as the denominator. The average interest bearing assets consist of, **average loans and advances, average placement and average investment**. The average loans and advances of MBL in 2012 were BDT 93610.87 million and placement and investment was BDT 10,550.00 million and BDT 625.02 million respectively.

The net interest margin increased in 2010, but decreased afterwards, which is not a good indicator of MBL's performance. Additionally, they were able to achieve the highest growth in earnings during a five year period in 2010, which can be seen in the growth section.

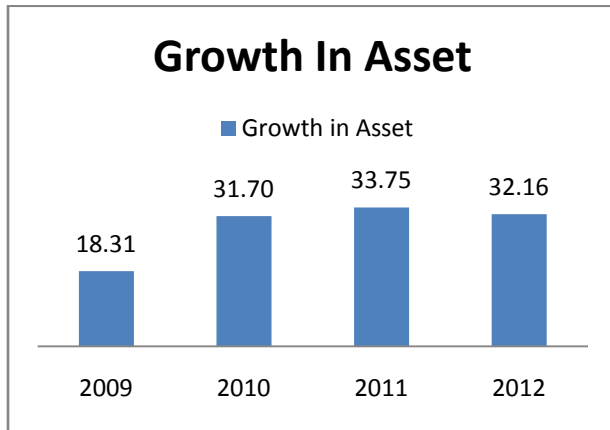


Figure 1: growth in assets

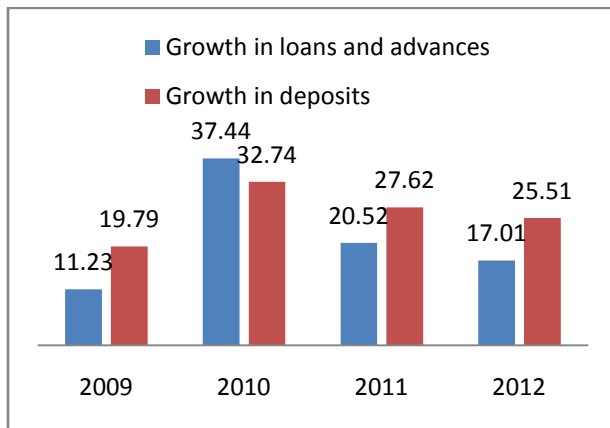


Figure 2: growth in loans in advances and deposits

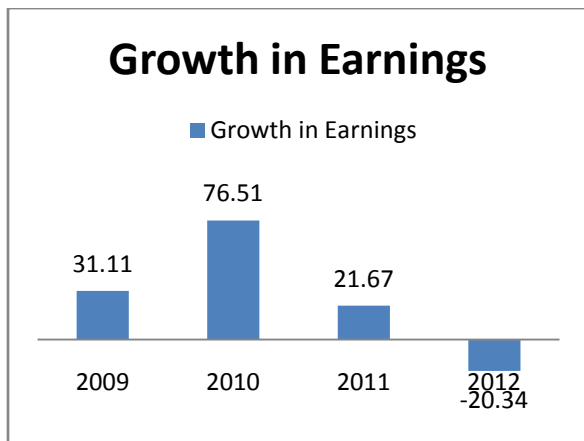


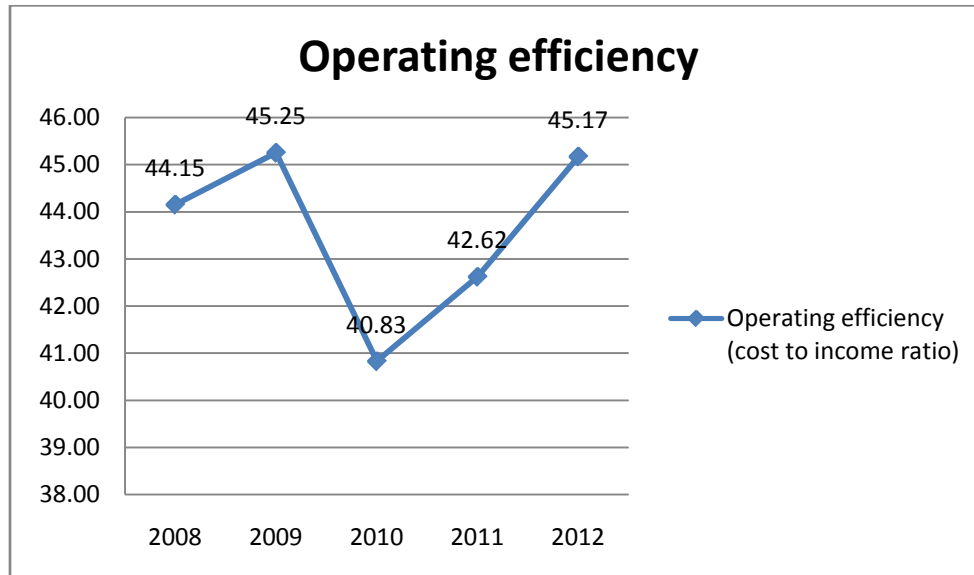
Figure 3: Growth in earning

The growth in assets of 31.7% in 2010 is largely because of increase in loans and advances which can be seen in figure 2. Mercantile Bank’s loans and advances stood at Tk.43419 million in 2008, and Tk. 48295 million in 2009, which increased to Tk.66377 million at 2010 and thus the increase in growth. However, in 2011 the rate of growth in loans and advances fell quite significantly to 20.52%, following a slower growth at 2012, although growth in total Asset increased slightly. This is due to the fact that in 2011 there was a very small increase in their loans and advances compared to the last year, whereas Total Asset increased due to the fact that in 2011, Mercantile’s Cash, Fixed Asset and money at call on short notice huge increase. (Further details of loan and advances are in the loans and advances section.

Mercantile Bank has reported very high earnings (net profit after tax) growth in 2010 of 76.51% compared to the previous year. Total operating income increased in 2010 due to a significant increase in net interest income and non-interest income. However, even if the profit growth is significantly high in 2010, there was a negative earnings growth in the following years. The main reason behind this reason was, due to a very low growth in loans and advances with a moderate growth in deposits. In 2012 due to an increase in expenses and provision, it led to further decrease in the earnings growth.

## Efficiency and Return

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The ratio gives investors a clear view of how efficiently the firm is being run - the lower it is, the more profitable the bank will be. Changes in the ratio can also highlight potential problems: if the ratio rises from one period to the next, it means that costs are rising at a higher rate than income, which could suggest that the company has taken its eye off the ball in the drive to attract more business.

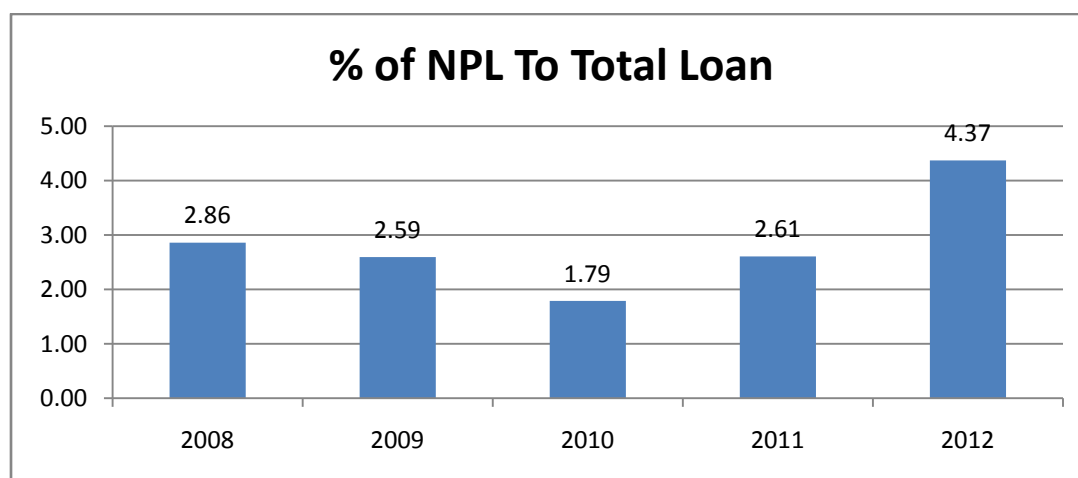
Mercantile bank's reported a profitable year at 2009. There operating income rose significantly from 2008 and growth in earnings increased by 31.1%. Although the bank had a profitable year, there operating efficiency increased by only 2.49%. Growth in operating income stood 23% where as the growth in operating expenses was 26%. This can be explained by the fact that they opened 11 new branches and 188 employees were employed in 2009.

In the year 2010 the operating efficiency decreased to 40.83% which means that the bank was running more efficiently than before. At 2010, Mercantile Banks growth in earnings at 2010 was the highest compared to the other years. Moreover, they opened 12 new branches and employed 223 employees in the following year. However, in 2011 they couldn't manage its cost to income ratio properly, resulting in an increase in operating efficiency. The reason behind this was a higher growth in operating expense than operating income. Although some of the expenses decreased, like director's fees, stationary, printing, legal expenses, etc. but expenses like chief executive's salary and salary and allowances increased. At 2012, the operating efficiency kept on increasing, the bank made a negative growth of 20% earnings after tax. The reason behind this was a decrease in operating income and expenses, compared to the last

year, also an increase in total provision. The provision for classified loan for the bank increased to Tk.818 million at 2012, from Tk.315.2 million at 2011. Moreover, it would be better for the Bank to keep its operating efficiency lower, which means minimizing cost while increasing profit.

## Loans and Advances

Loans	2008	2009	2010	2011	2012
Total loans and advances	43419.36	48295.55	66377.70	79999.80	93610.87
Non Performing Loans	1,242.47	1,252.05	1,187.81	2,084.62	4,090.92
% of NPL To Total Loan	2.86	2.59	1.79	2.61	4.37
Provision for unclassified loans	438.20	518.50	749.00	889.00	969.00
Provision for classified loans	578.20	629.70	617.53	712.42	1,495.87
Sub Standard	44.4	31.5	36	95.629	87
Doubtful	129.8	84.5	40	289.528	476
Bad/Loss	404	513.7	541.531	327.257	932.869
Total Provisions(UCL & CL)	1,016.40	1,148.20	1,366.53	1,601.42	2,464.87



Loans become nonperforming when borrowers stop making payments and the loans enter default. Banks often report their ratio of nonperforming loans to total loans as a measure of the quality of their outstanding loans. A smaller NPL ratio indicates smaller losses for the bank, while a larger (or increasing) NPL ratio can mean larger losses for the bank as it writes off bad loans. MBL's NPL to loan ratio rose suddenly at 2012. In the previous years the managed to keep the ratio lower than the other banks. However, the overall NPL to Loan ratio of most of the banks were high at the year 2012.

## Al Arafah Islami Bank Ltd.

Company summary						2012
Current Price (as on 05 May 2012)						
Number of Shares						
52- week Price Range (BDT)						
Cash Dividend						
Profitability						2012
Interest income/ total income (%)	2008	2009	2010	2011	2012	
	78.68	75.47	55.67	84.13	87.70	
Non- interest income/ total income (%)	21.32	24.50	44.33	15.87	12.29	
Net Interest Margin		3.74	2.13	4.55	4.43	
Growth (%)						
Growth in assets		30.50	55.36	37.34	41.36	
Growth in loans and advances		30.25	48.29	37.05	38.31	
Growth in deposits		29.19	41.03	52.42	44.80	
Growth in earnings		28.54	123.51	-7.70	8.32	
Efficiency and return (%)						
Operating efficiency (cost to income ratio)	29.67	34.43	29.59	28.66	32.49	
Loan/ Deposit	93.44	94.21	99.06	89.07	85.08	
ROE	24.70	24.10	24.55	18.47	15.45	
ROA	1.80	1.77	2.55	1.71	1.31	
NPL ratio						
Non- performing loans (millions)	817.9	608.14	610.48	751.1	2297.55	
Non- performing loans to total loans and advances	2.95	1.68	1.14	1.02	2.26	
Capital position						
Core Capital- Tier I	2,639.08	3,498.07	9,582.85	9,528.67	11,448.19	
Supplementary Capital- Tier II	410.26	567.89	929.96	1,123.40	1,731.59	
Capital Adequacy Ratio (CAR) - Basel II (%)	11.20	11.25	12.7	11.40	10.93	
Capital Adequacy Ratio- Basel I						

## Profitability

Particulars	2008	2009	2010	2011	2012
Interest Income (millions)	3,456.34	4,004.54	4,243.93	8,974.09	14,119.19
Interest Expenses (millions)	2,220.47	2,667.34	3,133.69	5,543.45	9,575.65
Non Interest Income (millions)	936.81	1,301.09	3,378.95	1,693.32	1,979.43
Non Interest expenses (millions)	644.59	908.47	1,328.56	1,468.75	2,119.05
Interest income/ total income (%)	78.68	75.47	55.67	84.13	87.70
Non- interest income/ total income (%)	21.32	24.50	44.33	15.87	12.29
Net Interest Margin (%)		3.74	2.13	4.55	4.43

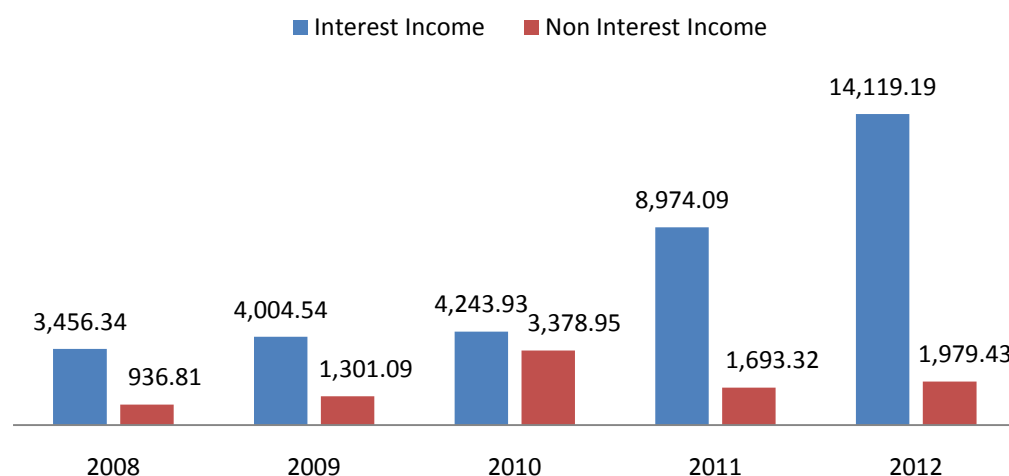


Figure 1: Interest and non- interest income over a five year period

Interest income and non- interest income was BDT 3,456.34 million and BDT 936.81 million respectively in 2008. AIBL's total income's (interest income and non- interest income) 78.68% consisted of interest income and only 21.32% from other income. However, in 2009 interest income percentage decreased by 3.21% and non- interest percentage increased by 3.18%. This may be a positive side for AIBL, as they are trying to keep their income consistent by keeping a balance between interest and non- interest income. In 2010 interest income grew at a very low rate the amount being BDT 4,243.93 million a growth on only 5.97%. On the other hand non- interest income increased significantly in 2010 with a growth of 159%. So, their low revenue growth from interest income was offset by the high growth in their non- interest income. Therefore, a steady growth in profit was still maintained with a net interest margin of 3.73%.

In the following years, however, in 2011 and 2012 AIBL achieved a growth of 111.45% and 57.33% respectively in their interest income, with a decrease in their non- interest income in these years. Their high growth was due to the amount of loans given by AIBL. In 2011 the



amount was BDT 73,433.81 million and in 2012 it stood at BDT 101,567.01 million (please see loans and advances section for further details).

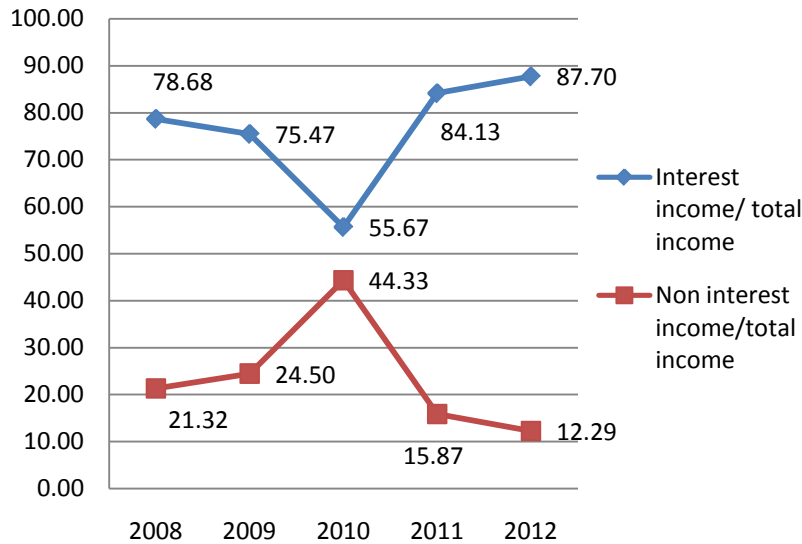


Figure 2: Percentage of interest and non- interest income to total income.

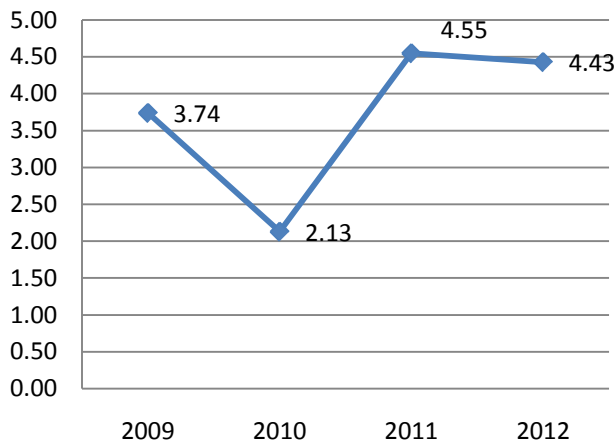


Figure 3: Net interest margin

Non- interest income decreased significantly in 2011 and 2012, holding a 15.87 % and 12.29% respectively of the total income. With the increase in their interest income and the decrease in the non- interest income, AIBL managed to maintain a net-interest margin of 4.55% and 4.43% in 2011 and 2012 respectively. These amounts are much better from the preceding years, especially in 2010 where it was only 2.13%.

Net interest margin stood at 4.43% in 2012. It is calculated by taking the net interest income as numerator and average interest bearing assets as the denominator. The average interest bearing assets consist of, **average loans and advances, average placement and average investment.** The average loans and advances of AIBL in 2012 were BDT 85,500.43 million and placement and investment was BDT 10,550.00 million and BDT 4,413.22 million respectively.

The net interest margin decreased significantly in 2010, and was not a good indicator of AIBL’s performance. However, despite this decrease they were able to achieve the highest growth in earnings during a five year period in 2010, which can be seen in the growth section. The margin increased in 2011 to 4.55% followed by a slight decrease in 2012 to 4.43%.

## Growth

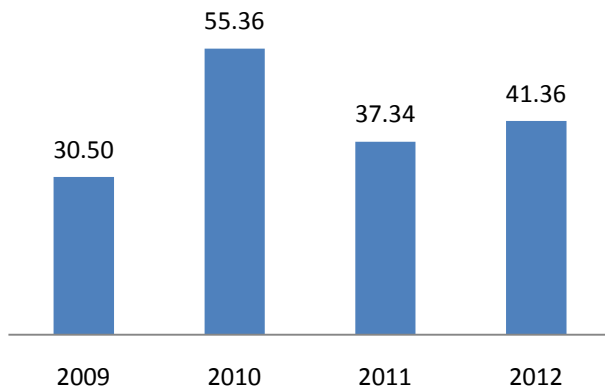


Figure 1: growth in assets

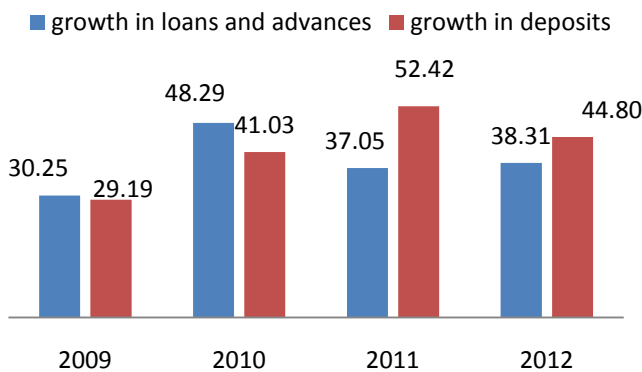


Figure 2: growth in loans and advances and deposits

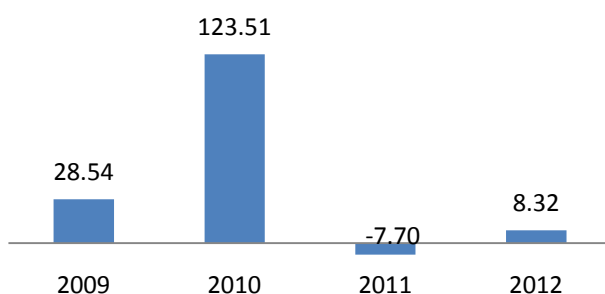


Figure 3: growth in earnings

AIBL had an average growth of 41.14% in their assets over a four year period. Over the four years highest growth of 55.36% was obtained in 2010. This is largely because of the growth in their loans and advances of 48.29%, in the same year. And above all their growth in earnings was 123.51% in 2010. These growths do not support the fact that in 2010 AIBL's interest income held the lowest percentage of its total income over the 5 years, and also the net- interest margin was at its lowest. Their high growth percentages can only be explained by the fact that in 2010, non- interest income was 44.33% of total income, which was a growth of 159% in 2010 from 2009. It shows that in 2010, though their loans and advances increased, their revenue did not increase in the same proportion. (Further details of loans can be found in later sections).

The growths in 2011 and 2012 were also quite high, but in 2011, they had a negative earnings growth of 7.7%, by achieving profit after tax and provision of BDT 1,772.05 million compared to BDT 1,919.90 million in 2010. However, they were able to manage and obtain a positive growth in their earnings the following year.

## Efficiency and return

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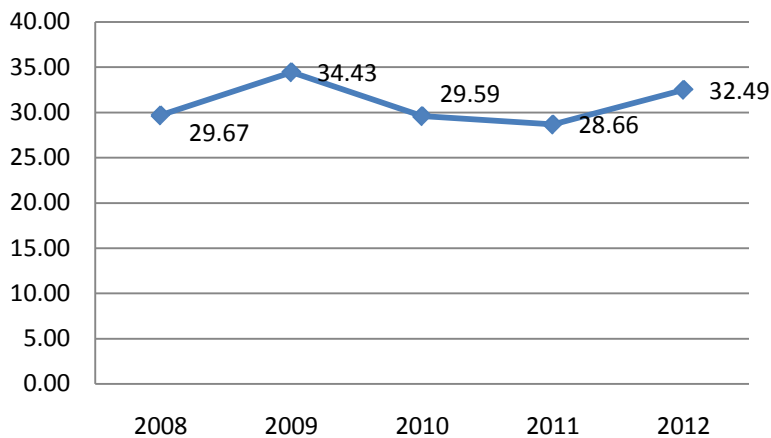


Figure 1: 5 year's analysis of cost/income ratio (operating efficiency of Al Arafah)

The cost to income ratio was 29.67% in 2008 which was much better than 2009 and 2012. However, in 2009 this increased to 34.43%. During this one year period operating income increased by only 21.4% whereas operating expenses increased by 40.9% which is almost double. This is due to the low growth in their loans and advances compared to other periods. Cost on the other hand increase as new branches were opened and new employees appointed, and this in turn increased their costs of running the business. But overall management of AIBL was not efficient in controlling the costs during this period. However, in 2010 and 2011 management had a better control of their costs, with the ratio of 29.59% and 28.66% respectively. In 2010 their operating income increased by 63.9% and operating expenses by 46.2% Based on the information provided in their annual report, they opened 18 new branches and appointed 415 new employees. With all these expenses, management of AIBL lowered their cost to income ratio from the previous years, and thus obtained a growth in earnings of 123.51%. This was further lowered in 2011 where the income growth was only 14.1% and a lower growth in expenses of 10.56%. They did manage to obtain a very good efficiency ratio, however due to their low income growth AIBL achieved a negative earnings growth. This negative growth further affected the performance of 2012, as their efficiency ratio again increased to 32.49%. Their income growth in 2012 was 27.3% and expense growth of 44.27%. Their expenses grew at a much higher rate than their income though there were high increases in their loans and advances, assets and also their deposits. And since their increase in their deposits was higher than their loans, they had to bear higher interest expenses, and therefore a low operating income.

Overall, to hold a better position management should try to get a balance between the loans and deposits and manage the costs accordingly. (Further analysis of loans, deposits are given below.

## Loans and Advances

Loans (million BDT)	2008	2009	2010	2011	2012
Total loans and advances	27,742.57	36,134.08	53,582.96	73,433.81	101,567.04
Non Performing Loans	817.9	608.14	610.48	751.1	2297.55
% of NPL To Total Loan	2.95	1.68	1.14	1.02	2.26
Provision made for unclassified loans	298.09	409.19	666.95	866.46	1,021.15
Provision for classified loans	329.78	173.13	137.57	305.94	706.32
Sub Standard	2.55	0.79	4.91	26.65	77.83
Doubtful	7.71	4.32	3.97	206.43	200.02
Bad/Loss	319.52	168.02	128.69	72.86	428.47
Total Provisions(UCL & CL)	627.87	582.32	804.52	1,172.40	1,727.47

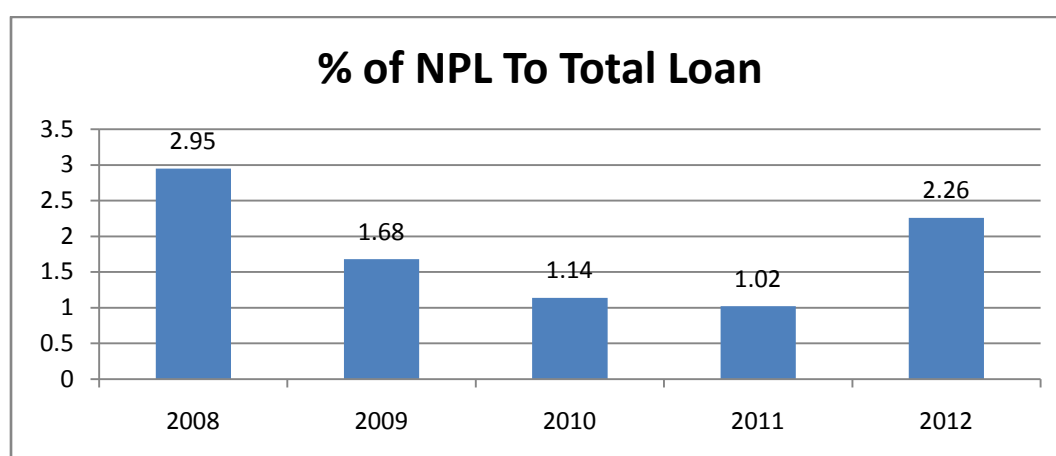


Figure 1: Percentage of Non Performing Loans to Total Loan for the 5 year period

Loans become nonperforming when borrowers stop making payments and the loans enter default. Banks often report their ratio of nonperforming loans to total loans as a measure of the quality of their outstanding loans. A smaller NPL ratio indicates smaller losses for the bank, while a larger (or increasing) NPL ratio can mean larger losses for the bank as it writes off bad loans. AIBL NPL to loan ratio rose suddenly at 2012. In the previous years the managed to keep the ratio lower than the other banks. However, the overall NPL to Loan ratio of most of the banks were high at the year 2012.

Company Summary		2012				
Current Price (as on 05 May 2012)						
Number of Shares						
52- week Price Range (BDT)						
Cash Dividend						
Profitability	2008	2009	2010	2011	2012	
Interest income/ total income (%)	81.34%	72.17%	68.35%	74.25%	82.99%	
Non- interest income/ total income (%)	18.66%	27.83%	31.65%	25.75%	17.01%	
Net Interest Margin		2.45%	3.27%	1.63%	2.00%	
Growth						
Growth in assets		40.67	7.51	30.78	24.99	
Growth in loans and advances		18.65	21.85	27.64	7.51	
Growth in deposits		47.22	4.02	30.56	26.10	
Growth in earnings		31.93	108.67	-51.66	-70.35	
Efficiency and return						
Operating efficiency (cost to income ratio)	37.57	44.95	37.48	49.01	61.43	
Loan/ Deposit	83.62	67.40	78.95	77.18	65.80	
ROE						
ROA						
NPL ratio	2008	2009	2010	2011	2012	
Non- performing loans	693.28	860.72	960.02	1,534.31	2,503.84	
Non- performing loans to total loans and advances	2.52	2.64	2.41	3.02	4.58	
Capital position						
Core Capital- Tier I	3,045.37	3,632.30	4,926.74			
Supplementary Capital- Tier II	450.07	583.68	878.20			
Capital Adequacy Ratio (CAR)- Basel II (%)	12.81	12.66	9.06			
Capital Adequacy Ratio- Basel I						

## Profitability

Particulars	2008	2009	2010	2011	2012
Interest Income	3,634.65	4,027.19	4,686.64	6,271.81	8,343.78
Interest Expenses	2,462.23	3,112.82	3,213.95	5,386.48	7,053.72
Non Interest Income	833.69	1,553.30	2,170.36	2,175.12	1,710.77
Non Interest expenses	753.67	1,109.31	1,365.39	1,499.89	1,843.41
Interest income/ total income (%)	81.34%	72.17%	68.35%	74.25%	82.99%
Non interest income/ total income (%)	18.66%	27.83%	31.65%	25.75%	17.01%
Net Interest Margin		2.45%	3.27%	1.63%	2.00%

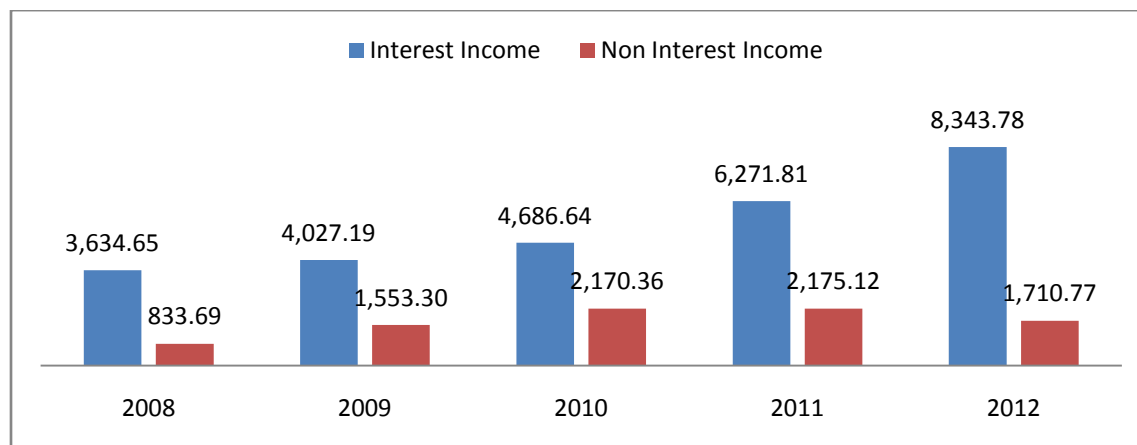


Figure 1: Interest income and non- interest income for 2008- 2012.

Interest income and interest income was BDT 3634.65 million and BDT 833.69. Trust Bank's percentage of interest income was increasing at a higher rate than non interest income. From the year 2011 Trust Bank started giving more importance to non interest income than interest income. Non- interest income mainly consists of commission, exchange, brokerage and other operating income. Income from these is volatile and probably that's why they preferred noninterest income more in these years.

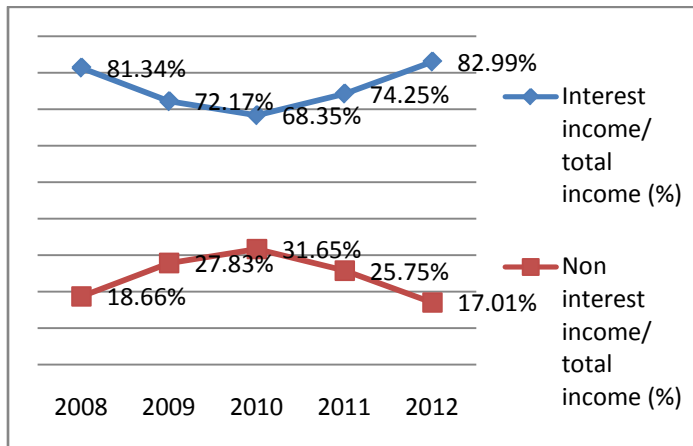
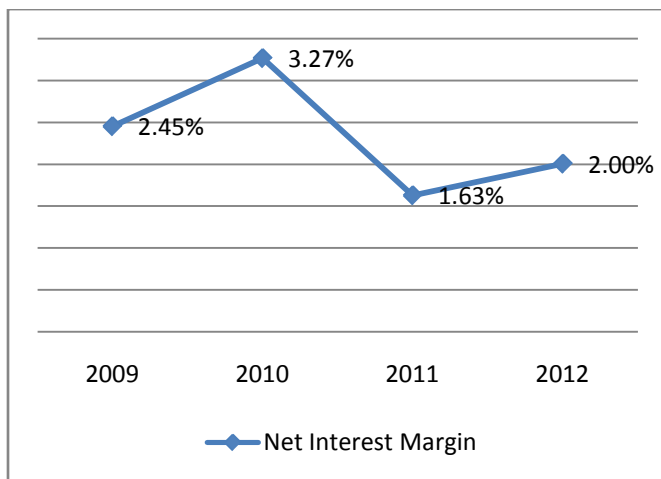


Figure 2: Percentage change in interest income and non- interest income in proportion to total income during a five year period.

Interest income as a percentage of total income has decreased to a larger percentage in 2010 from 2008. This can be explained by the fact that non-interest income has increased at a higher percentage during the two years. Another reason could be the sudden decrease in growth in asset. However in the following years the interest income percentage was more than non-interest income.



The net interest margin increased significantly at 2010, which is a good performance indicator. However, it decreased over the years, it is probably because of the negative growth in earnings and an unstable growth in loans and deposits.

## Growth

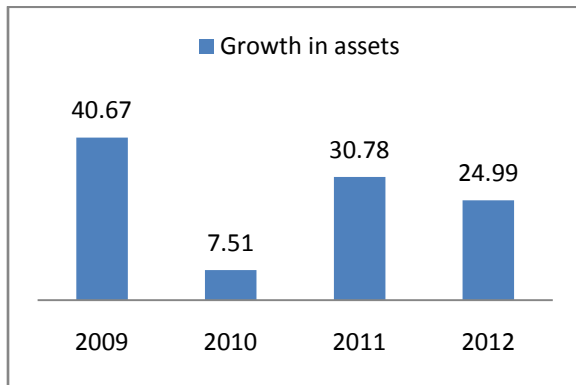


Figure 1: growth in assets

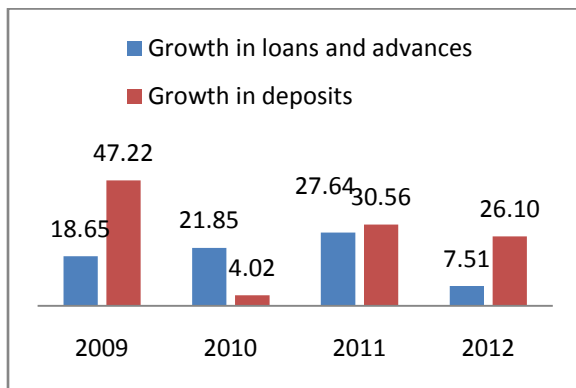


Figure 2: growth in loans in advances and deposits

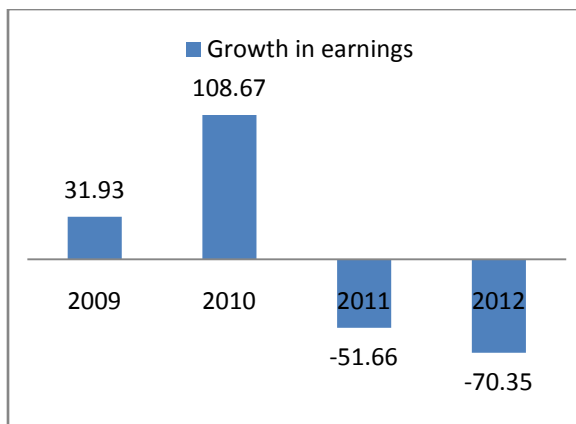


Figure 3: Growth in earnings

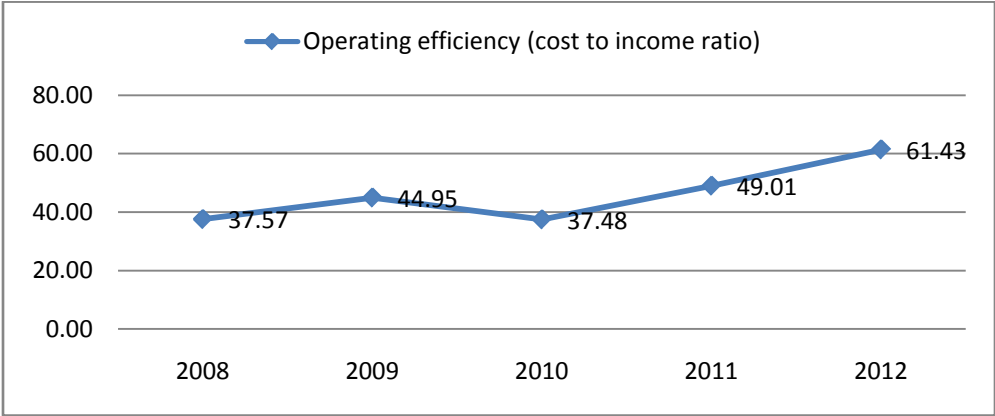
The huge growth in assets of 34.78% in 2009 is largely because of increase in investments, placements and other assets. The growth in loans and advances in that year was low, which can be seen in figure 2. However, the growth in asset fell quite significantly to at 2010, but it became better at the following years. Although loans and advances improved at 2010, it didn't hold a greater percentage of the total asset. The rate of growth in loans and advances fell again at 2012, which is the main reason for the decrease in growth in asset.

The net interest margin increased significantly over the years, which is a good performance indicator. However, there growth in earnings was decreasing over the years and its growth in asset was low, but due to increase in net income it maintained a growing margin.



## Efficiency and Return

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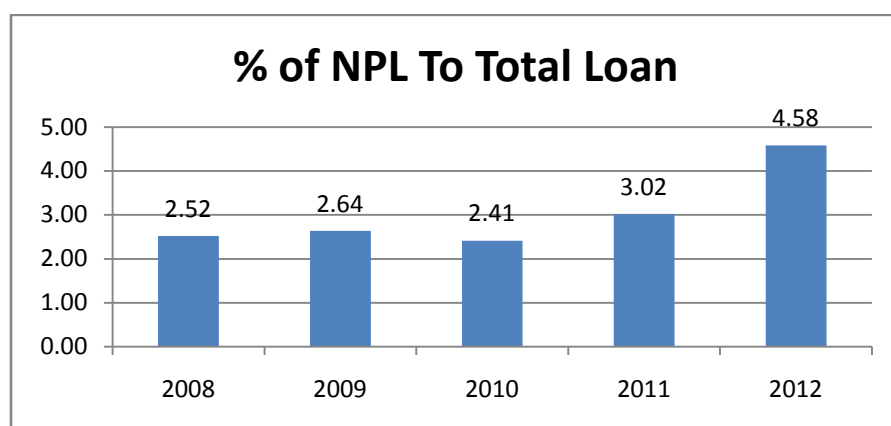


Trust Bank reported a profitable year in 2009, with a growth in earnings of 31.93%. There operating income rose significantly from 2008, than there operating expenses, and thus the decrease in operating efficiency. At 2010, operating efficiency decreased and the bank made a growth in earnings of 108.67%. The main reason for this was a growth in income more than expenses. However, the bank recruited 2009 more employees and opened 17 new branches they maintained their expenses effectively.

In the years of 2011 and 2012, the operating efficiency started increasing at higher percentage and growth in earnings decreased greatly. The main reason behind it was a slow growth in income, the growth in loans decreased. Moreover, the growth in Operating expenses was more at 2011 and 2012 than the operating income, and thus the increase in operating efficiency.

## Loans and Advances

Loans	2008	2009	2010	2011	2012
Total loans and advances	27,528.08	32,663.11	39,799.92	50,801.74	54,616.06
Non Performing Loans	693.28	860.72	960.02	1,534.31	2,503.84
% of NPL To Total Loan	2.52	2.64	2.41	3.02	4.58
Provision for unclassified loans	418.94	519.40	778.15	929.49	965.99
Provision for classified loans	311.81	439.00	304.75	339.39	763.35
Sub Standard	4.71	6.073	8.44	57.786	64.701
Doubtful	26.669	5.409	75.098	26.448	76.689
Bad/Loss	280.428	428.202	221.207	255.158	621.953
Total Provisions(UCL & CL)	730.75	958.40	1,082.90	1,268.88	1,729.34



Loans become nonperforming when borrowers stop making payments and the loans enter default. Banks often report their ratio of nonperforming loans to total loans as a measure of the quality of their outstanding loans. A smaller NPL ratio indicates smaller losses for the bank, while a larger (or increasing) NPL ratio can mean larger losses for the bank as it writes off bad loans. Trust Banks NPL to loan ratio saw an immense increase at the year 2012, it was probably because of the high default rate, and the overall economic slowdown of the world economy.

## Bank Asia

Company Summary		2012				
Current Price (as on 05 May 2012)						
Number of Shares						
52- week Price Range (BDT)						
Cash Dividend						
Profitability		2008	2009	2010	2011	2012
Interest income/ total income (%)		74.9	72.4	69.2	74.6	76.2
Non- interest income/ total income (%)		25	27.5	30.7	25.3	23.7
Net Interest Margin			3.22	3.83	2.79	3.32
Growth						
Growth in assets			28.65	53.21	11.91	19.22
Growth in loans and advances			25.75	58.16	4.17	11.48
Growth in deposits			29.22	52.47	13.79	15.69
Growth in earnings			93.27	45.39	-0.69	-52.62
Efficiency and return						
Operating efficiency (cost to income ratio)		34.15	36.63	36.49	36.88	35.4
Loan/ Deposit		94.2	91.67	92.06	87.06	83.89
ROE		34.22	33.01	26.66	8.94	8.97
ROA		1.29	1.93	1.83	1.63	0.65
NPL ratio						
Non- performing loans		1072.67	785.07	1284.25	2249.96	5251.48
Non- performing loans to total loans and advances		2.68	1.56	1.62	2.72	5.69
Capital position						
Core Capital- Tier I		3317.22	4644.4	6569.16	9536.33	10444.33
Supplementary Capital- Tier II		670.53	893.77	1587.8	2910.99	3485.86
Capital Adequacy Ratio (CAR)- Basel II (%)			10.01	8.11	14.88	13.05
Capital Adequacy Ratio- Basel I		11.25	12.27			

## Profitability

Particulars	2008	2009	2010	2011	2012
Interest Income	4973.11	6247.49	8381.35	10903.5	13296.0
Interest Expenses	3,739.0	4,498.0	5,420.5	8	6
Non Interest Income	1,658.4	2,380.0	3,729.6	8,202.66	9,616.35
Non Interest expenses	4	2	4	3,702.52	4,140.97
Interest income/ total income (%)	74.9	72.4	69.2	74.6	76.2
Non- interest income/ total income (%)	25	27.5	30.7	25.3	23.7
Net Interest Margin (%)		3.22	3.83	2.79	3.32

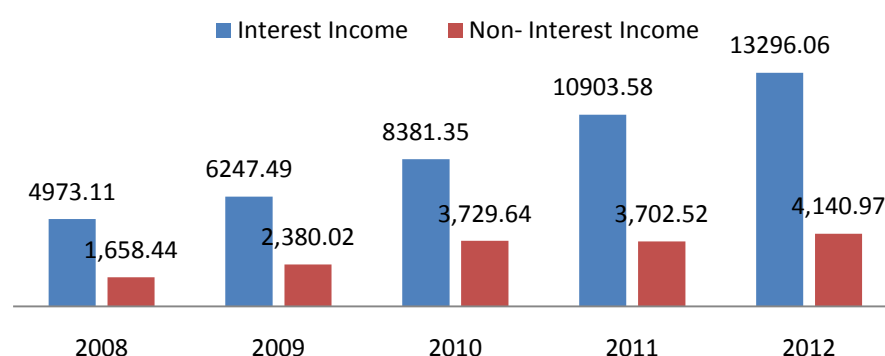


Figure 1: Interest income and non- interest income for 2008- 2012.

Interest income and non interest income was BDT 4973.11 million and BDT 1658.44 million respectively in 2008. Bank Asia's total income (interest and non interest income) 75% consisted of interest income and only 25% from other income. Over the years the percentage of interest income and non interest income increased consistently. At 2012 there was a high growth of 22% of interest income. This high growth was due to high loans given by Bank Asia. At 2011 the loan amount was 82,000 million and at 2012 the loan amount increased to 92,000 million. However the amount of interest income was very steady and didn't show that much of growth compare to interest income.

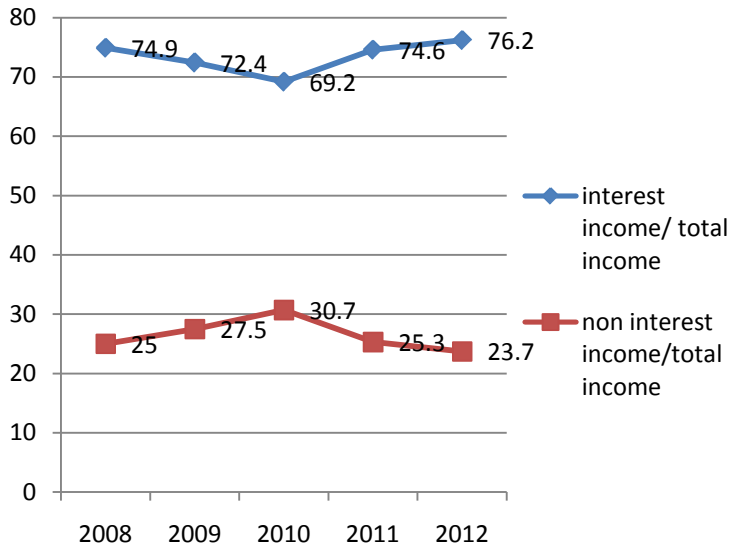
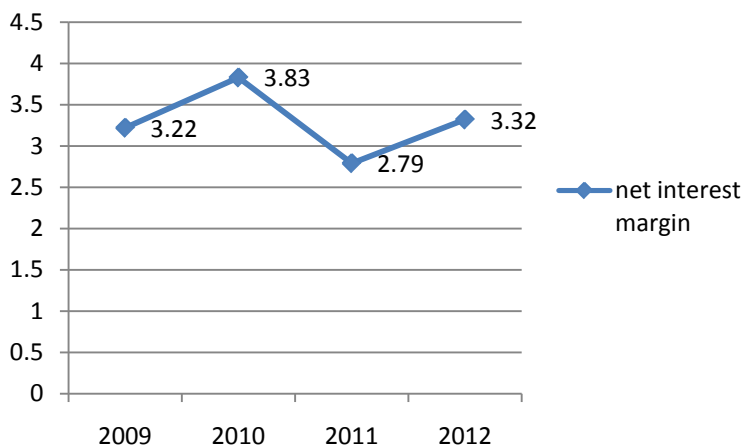


Figure 2: Percentage change in interest income and non- interest income in proportion to total income during a five year period.

Interest income as a percentage of total income has decreased to 69.2% in 2010 from 74.9% in 2008. This can be explained by the fact that non-interest income has increased by a higher percentage during the two years. Non- interest income arises mainly from commission, exchange, brokerage and other operating income. Though it did increase during the years 2008- 2010 it started to hold a lower percentage of total income in 2011 and 2012. The decrease in 2011 is due to an increase in interest income, however, the total income from commission, exchange and brokerage decreased from TK 2,125.99 million in 2011 to TK 1,760.31 million in 2012, and thus the decrease.



The net interest margin decreased significantly in 2011, which was not a good performance indicator for Bank Asia. However, there growth in earnings was the lowest over the five years, which can be seen at the growth section. However the margin increased at 2012, although they had a negative growth in earnings that year as well.

## Growth

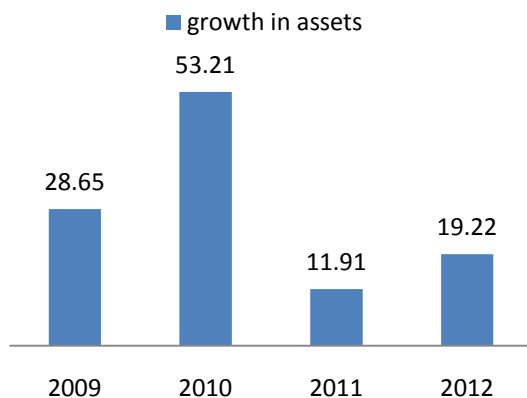


Figure 1: growth in assets

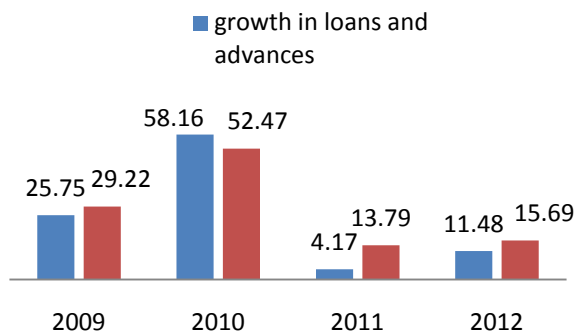


Figure 2: growth in loans in advances and deposits

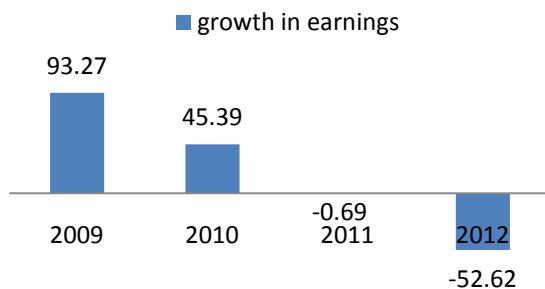


Figure 3: Growth in earnings

The huge growth in assets of 53.21% in 2010 is largely because of increase in loans and advances which can be seen in figure 2. A part of this growth is also due to higher investment in fixed assets. Bank Asia's fixed assets stood at TK 644.25 million in 2008 and TK 1,018.38 million in 2009 but in 2010 this amount increased to TK 1,837.28 million, an increase of 185% in fixed assets from 2008. However, in 2011 the rate of growth fell quite significantly to 11.91% following a slower growth in 2012. This is due to the fact that in 2011, Bank Asia had no money at call on short notice and also due to a very small increase in their loans and advances. (Further details of loans and advances are in the loans and advances section)

Bank Asia has reported a very high earnings (net profit after tax) growth in 2009 of 93.27%. Total operating income did increase in 2009 due to the increase in net interest income and non- interest income. However, profit growth is significantly high in 2009, whereas there was negative earnings growth in 2008. The main reasons behind this are the decrease in total loan provision and current tax provision, and also a decrease in director's salary and fees. In 2011 and 2012 there was a negative growth in earnings although the expenses and provisions decreased. Therefore, due to very low growth in loans and advances with a moderate growth in deposits they continued to achieve negative growth in earnings.

## Efficiency and Return

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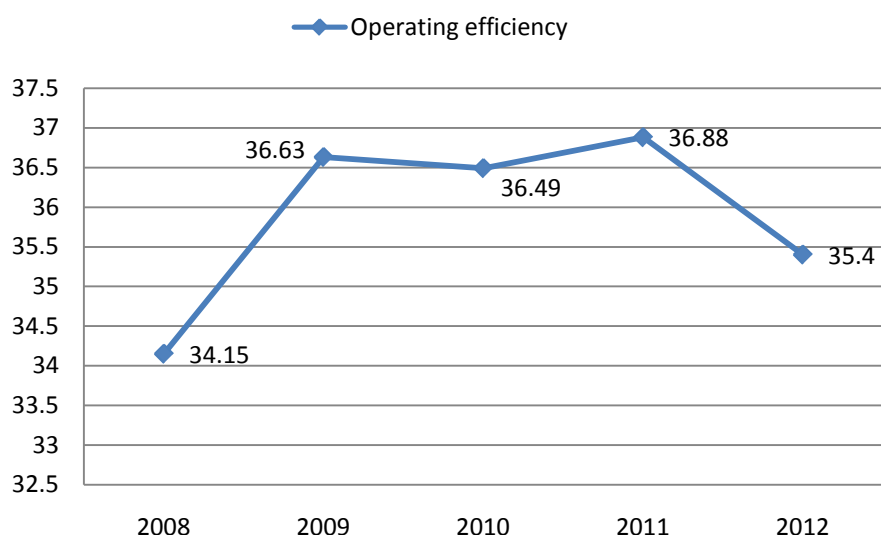


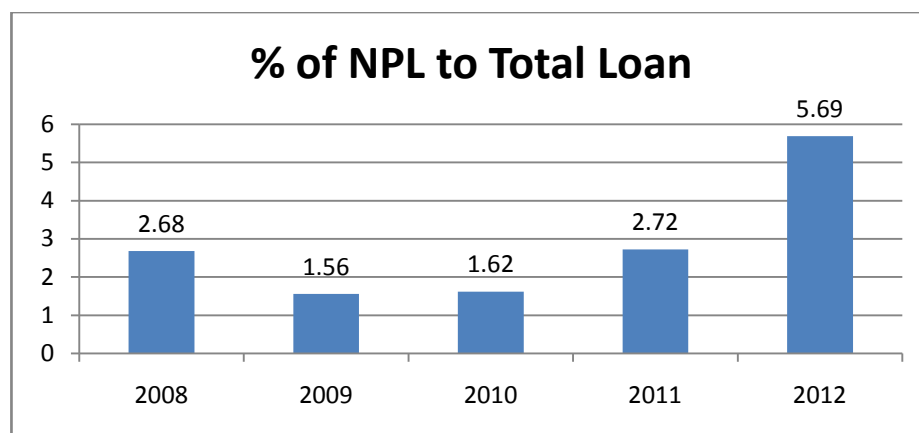
Figure 1: 5 year's analysis of Cost/Income ratio

Bank Asia reported a very profitable year in 2009. Their operating income rose significantly from 2008 and growth in earnings increased by 93.27%. Though they had a very profitable year, their operating efficiency increased by only 2.48%. Operating income stood at TK 2,892.54 million in 2008 and TK 4,129.5 million in 2009 a growth of 42.8%. But the operating expenses increased by 53.1%. This can be explained by the fact that they opened 8 new branches and also 229 employees were employed in 2009. Although all operating expenses did increase, the Managing Director's salary decreased by TK 3.01 million in 2009 and this is due to the fact that housing and other allowances decreased.

In the years 2010 and 2011, the operating efficiency has not changed much. It decreased in 2010 and then increased in 2011, and finally decreased in 2012. Bank Asia opened 8 new branches in 2010 as well and also employed 206 new employees. In 2011 and 2012, 14 and 10 new branches respectively were opened. However, they employed only 33 employees in 2011 for the 14 new branches and 215 employees in 2012. Their operating expenses decreased in 2011, and this is largely due to the fact that they had to incur lower salary expenses but higher rent, electricity etc. On the other hand their operating income also decreased due to the low growth in loans and advances and thus a very slight increase in operating efficiency of 36.88% in 2011 from 36.49% in 2010. The efficiency then decreased in 2012 due to higher number of employees and on the other hand higher growth in interest income but this is covered by the rise in interest expenses.

## Loans and Advances

Loans	2008	2009	2010	2011	2012
	39,975.0	50,267.9	79,504.2	82,819.9	92,328.8
Total loans and advances	0	2	3	7	2
Non Performing Loans	1,072.67	785.07	1,284.25	2,249.96	5,251.48
% of NPL To Total Loan	2.68	1.56	1.62	2.72	5.69
Provision for unclassified loans	498.24	576.66	924.37	974.03	989.20
Provision for classified loans	644.77	355.38	354.63	772.42	2,641.11
Sub Standard	3.62	26.08	57.06	60.47	44.40
Doubtful	78.28	67.91	50.63	155.79	121.52
Bad/Loss	562.87	261.39	246.94	556.17	2,475.19
Total Provisions(UCL & CL)	1,143.01	932.04	1,279.00	1,746.45	3,630.31



Loans become nonperforming when borrowers stop making payments and the loans enter default. Banks often report their ratio of nonperforming loans to total loans as a measure of the quality of their outstanding loans. A smaller NPL ratio indicates smaller losses for the bank, while a larger (or increasing) NPL ratio can mean larger losses for the bank as it writes off bad loans. Bank Asia's NPL to loan ratio rose suddenly at 2012. In the previous years the managed to keep the ratio lower than the other banks. However, the overall NPL to Loan ratio of most of the banks were high at the year 2012.



## Dutch Bangla Bank Limited

Company Summary		2012				
Current Price (as on 05 May 2012)						
Number of Shares						
52- week Price Range (BDT)						
Cash Dividend						
Profitability		2008	2009	2010	2011	2012
Interest income/ total income (%)		74.96%	69.13%	67.63%	70.73%	76.44%
Non-interest income/ total income (%)		25.04%	30.87%	32.37%	29.27%	23.56%
Net Interest Margin			3.52	4.99	5.63	6.59
Growth						
Growth in assets			34.78	23.22	21.90	26.87
Growth in loans and advances			16.10	38.93	17.83	15.59
Growth in deposits			31.44	22.80	20.98	24.55
Growth in earnings			38.46	76.26	7.40	7.41
Efficiency and return						
Operating efficiency (cost to income ratio)		46.81	44.05	41.36	47.42	53.89
Loan/ Deposit		80.85	71.41	80.80	78.69	73.03
ROE		25.51	26.14	28.63	24.09	21.31
ROA		1.35	1.39	1.99	1.75	1.48
NPL ratio		2008	2009	2010	2011	2012
Non-performing loans		1,363.20	1,193.30	1,665.70	2,186.79	2,728.36
Non- performing loans to total loans and advances		3.27	2.46	2.48	2.76	2.98
Capital position						
Core Capital- Tier I		2,911.20	4,048.90	6,051.20	7,523.00	9,395.50
Supplementary Capital- Tier II		1,676.30	1,850.90	3,074.70	3,011.80	2,888.50
Capital Adequacy Ratio (CAR) Basel II (%)		10.90	11.60	9.60	11.20	12.00
Capital Adequacy Ratio- Basel I						

## Profitability

Particulars	2008	2009	2010	2011	2012
Interest Income	5453.92	6,162.59	7,172.50	9,980.30	13,915.82
Interest Expenses	3636.24	4095.76	3,447.24	5,022.49	6,915.73
Non Interest Income	1,821.83	2,751.70	3,432.24	4,130.48	4,288.36
Non Interest expenses	1,703.64	2,122.80	2,960.07	4,309.66	6,083.61
Interest income/ total income (%)	74.96%	69.13%	67.63%	70.73%	76.44%
Non-interest income/ total income (%)	25.04%	30.87%	32.37%	29.27%	23.56%
Net Interest Margin	0	3.52	4.99	5.63	6.59

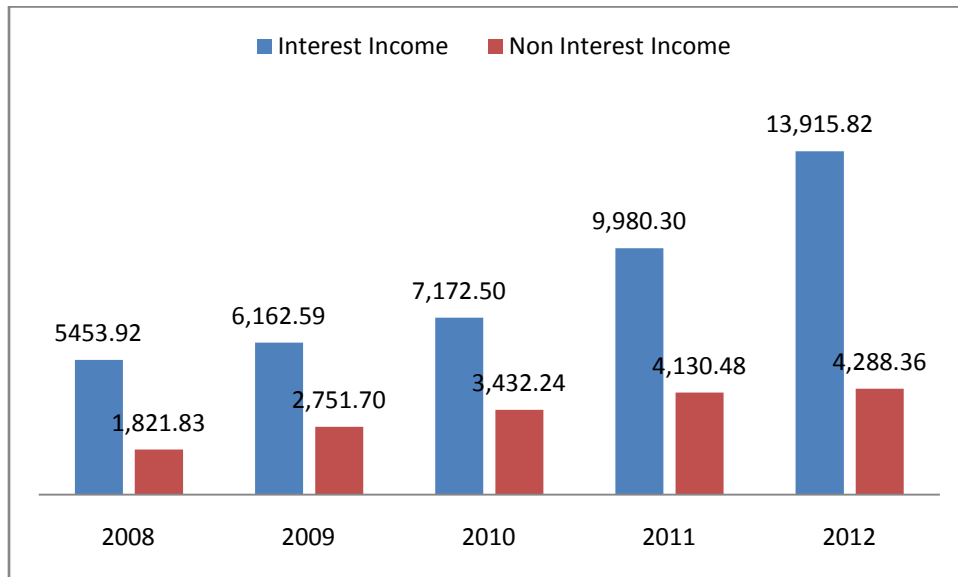


Figure 1: Interest income and non- interest income for 2008- 2012

Interest income and non- interest income was BDT 5453.92 million and BDT 1821.83 million respectively in 2008. DBBL's total income (interest and non interest income) 75% consisted of interest income and only 25% from other income. Over the years the percentage of interest income and non- interest income increased consistently. At 2012 there was a high growth of 40% of interest income. This high growth was due to high loans given by DBBL. However the amount of interest income was very steady and didn't show that much of growth compare to interest income.

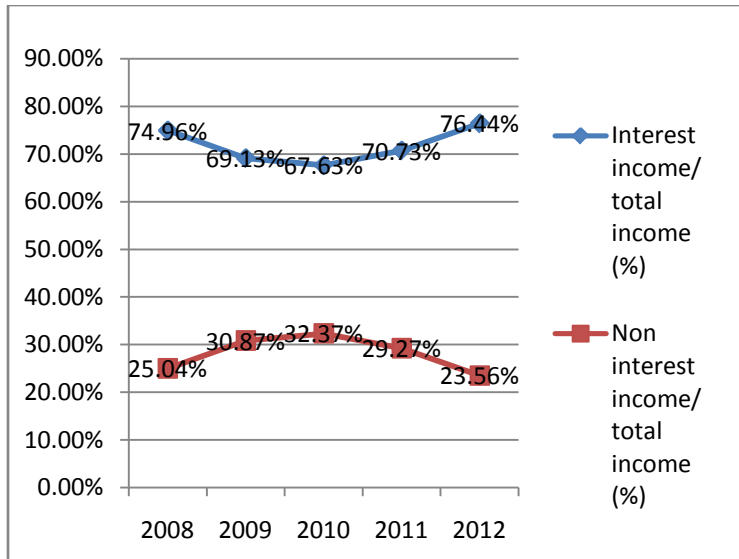
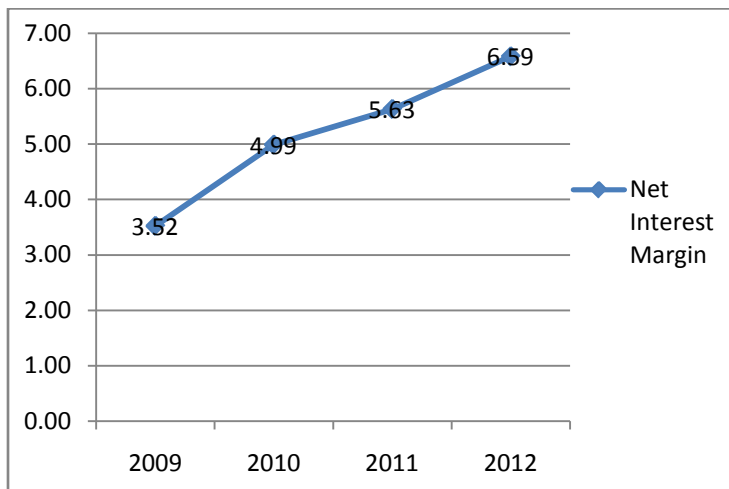


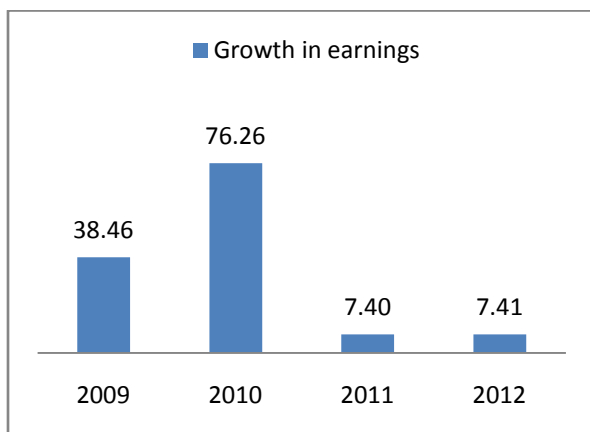
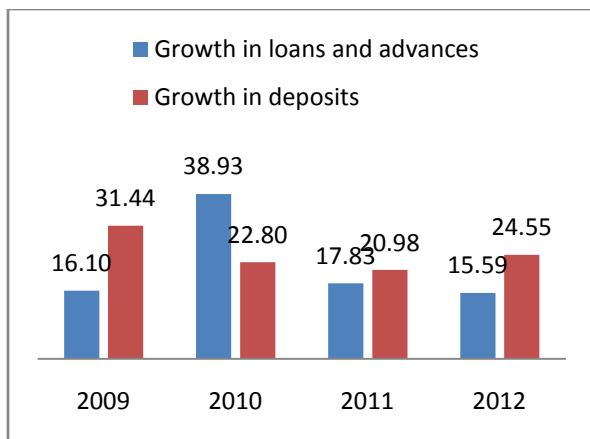
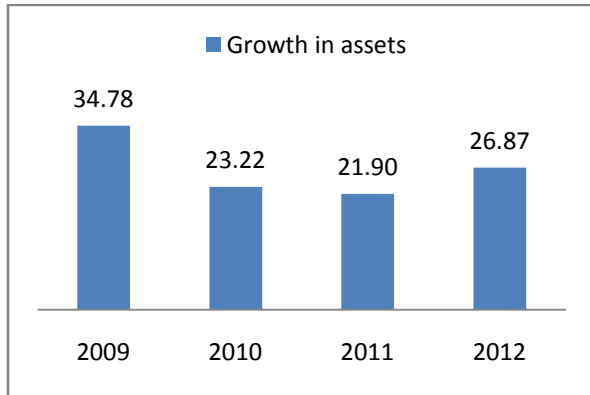
Figure 2: Percentage change in interest income and non- interest income in proportion to total income during a five year period.

Interest income as a percentage of total income has decreased to 67.63% in 2010, from 74.96% in 2008. This can be explained by the fact that non-interest income has increased by a higher percentage during the two years. Non- interest income mainly consists if commission, exchange, brokerage and other operating income. Though, non- interest income increased during the years of 2008-2010, it started to hold a lower percentage of total income in 2011 and 2012. The decrease in the non interest income curve is due to an increase in interest income at a higher percentage than non interest income. At 2012, the scenario was the same where non-interest income decreased at a lower percentage than interest income.



The net interest margin increased significantly over the years, which is a good performance indicator. However, there growth in earnings was decreasing over the years and its growth in asset was low, but due to increase in net income it maintained a growing margin

## Growth

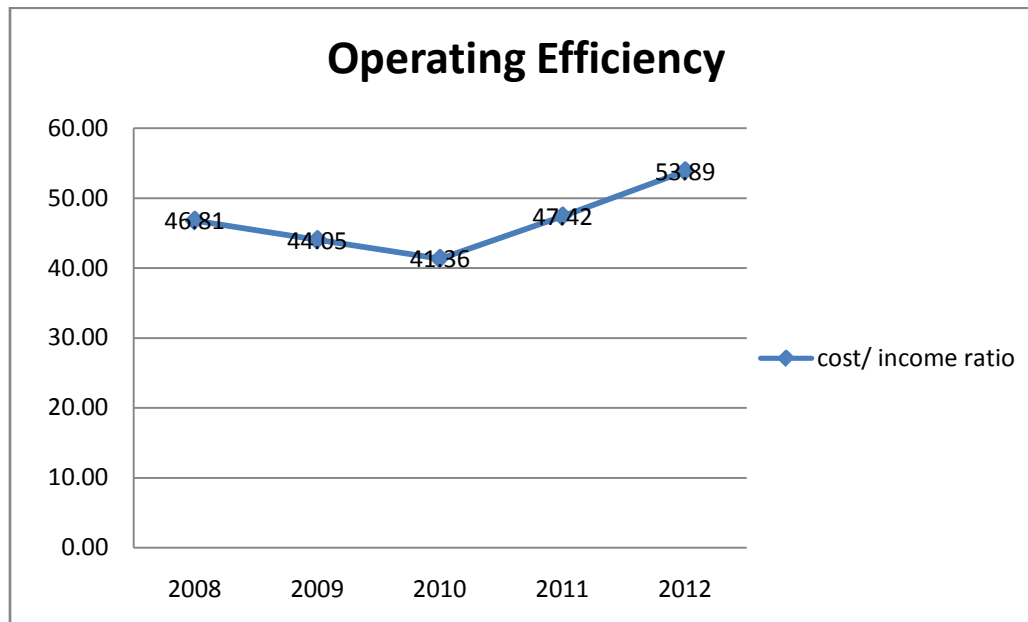


The huge growth in assets of 34.78% in 2009 is largely because of increase in investments, placements and other assets. The growth in loans and advances in that year was low, which can be seen in figure 2. However, the growth in asset fell quite significantly to 23.22% at 2010, following a slower growth at 2011. This is mainly due to a slow growth in total asset in the subsequent years. Although loans and advances improved to 38.9% at 2010, it didn't hold a greater percentage of the total asset. Moreover, placement decreased from Tk.10213 million at 2009 to Tk.2695 million at 2010, which led to the slow growth. The rate of growth in loans and advances fell again to 17.83% at 2011, which is the main reason for the decrease in growth in asset. But, at 2012 the Growth in Asset improved. A part of this growth is due to a huge rise in cash and placements.

DBBL has reported a high earnings (net profit after tax) growth in 2010 of 76.26%.total operating income increased in 2009 due to increase in interest and non-interest income, which led to a growth of operating income to 48% from 2009s. However, growth in earnings fell significantly to 7.40% at 2011 and 7.41% at 2012. The reason behind this decrease was a slow growth in income, while expenses and provision increased at a lower rate than income. Therefore, due to very low growth in loans and advances with a moderate growth in deposits they continued to achieve low growth in earnings.

## Efficiency and Return

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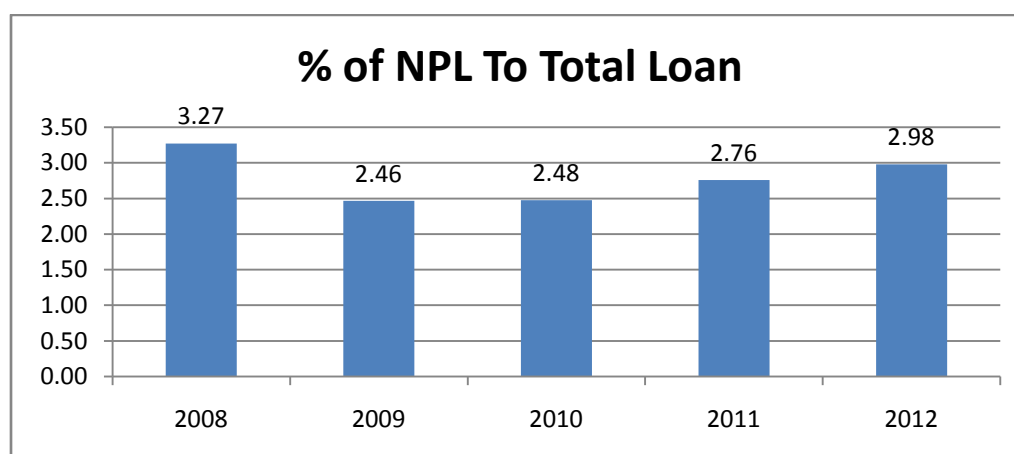


DBBL reported a profitable year in 2009, with a growth in earnings of 38.46%. There operating income rose significantly from 2008, than there operating expenses, and thus the decrease in operating efficiency. Operating Income stood at Tk.4818 million from Tk. 3639 million. At 2010, operating efficiency decreased and the bank made a growth in earnings of 76.26%. The main reason for this was a growth in income of 48% while the expenses increased to only 39%. However, the bank recruited 2009 more employees and opened 17 new branches they maintained their expenses effectively. The Bank decreased expenses like directors fee and legal expenses in this year.

In the years of 2011 and 2012, the operating efficiency started increasing at higher percentage and growth in earnings decreased greatly. The main reason behind it was a slow growth in income, the growth in loans decreased to 17.83% at 2011, and 15.59 at 2012. Moreover, the growth in Operating expenses was more at 2011 and 2012 than the operating income, and thus the increase in operating efficiency. Although, the Bank opened more branches and recruited more employees but income didn't increase. Another reason why the income might not have increased was that the bank exhibited its caution in limiting cost of deposits by emphasizing on more low cost and no cost deposit while keeping yield on advances at a reasonable level. Moreover, it would be better for the Bank to keep its operating efficiency lower, which means minimizing cost while increasing profit.

## Loans and Advances

Loans	2008	2009	2010	2011	2012
Total loans and advances	41,698.31	48,410.99	67,258.88	79,248.99	91,603.02
Non Performing Loans	1,363.20	1,193.30	1,665.70	2,186.79	2,728.36
% of NPL To Total Loan	3.27	2.46	2.48	2.76	2.98
Provision for unclassified loans	454.66	551.43	777.88	935.65	957.38
Provision for classified loans	464.01	742.71	884.09	1,061.11	1,372.07
Sub Standard	90.82	3.976	1.046	64.155	61.696
Doubtful	71.344	4.871	242.674	209.714	107.652
Bad/Loss	301.845	733.863	640.367	787.242	1202.725
Total Provisions(UCL & CL)	918.67	1,294.14	1,661.97	1,996.76	2,329.45



Loans become nonperforming when borrowers stop making payments and the loans enter default. Banks often report their ratio of nonperforming loans to total loans as a measure of the quality of their outstanding loans. A smaller NPL ratio indicates smaller losses for the bank, while a larger (or increasing) NPL ratio can mean larger losses for the bank as it writes off bad loans. DBBL's NPL to loan ratio was high at 2008, after that they managed to decrease the ratio, but at 2012 it got higher again. The overall NPL to Loan ratio of most of the banks were high at the year 2012.

## Findings

1. Most of the Banks Loan- deposit ratio was fluctuating, which caused a lower growth in assets and earnings. If the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirements; if the ratio is too low, banks may not be earning as much as they could be..However, its better to have a high loan to deposit ratio than a lower one. According to a a recent new published at Financial Express the credit deposit ratio in the overall banking sector declined to 72% in April last against 85 percent a year back. The ratio is likely to go down further in the coming months, if the slow trend about credit flows to the private sector continues and the political situation takes a turn towards further worse course again.
2. Demand of bank credit has declined which can be seen in the growth in asset section of all the banks. Not only that the rate of credit growth of the private sector has decreased to 12.72% in March.
3. The NPL to loan ratio was high for all the banks at the year 2012. If the volume of it goes beyond the tolerate limit (almost 3.5), it can erode the strength of financial institutions by cutting the capacity of further lending. It even lessens the income and wear down the confidence of depositors.
4. To maintain the interest income and non- interest income ratio of the bank. interest income is earned on deposits at banks and on money market funds, loans. Whereas, non interest income comes mainly from bank charges, penalty from sales and property leasing, etc. for a bank its better to rely more on interest income than on non interest income because non- interest income is more volatile. Since the growth from loans was low most of the banks interest income decreased from the year 2010 and the bank were more relying on non interest income than interest income.
5. When Bank opens new Branches the operating efficiency increases, as expense increase at a higher rate than income. However, Al Arafah Bank maintained a good efficiency ratio over the 5 years compared to others, managing its expenses and income capably.
6. The CAR has to go up to 14 percent under Basel-II requirement. Whereas most of the banks CAR ratio was below 14. Among all the banks Al Arafah islami Bank and Bank Asia maintained a better CAR ratio than other.

The capital adequacy ratio (CAR), which sets the minimum cushion of capital a bank, must keep absorbing losses and promoting stability, was 9.3 percent in Bangladesh at the end of 2010. The CAR of Indian banking industry was 14.6 percent as of end-March 2010, 14 percent in Pakistan and 14.9 percent in Sri Lanka

# *Chapter 5*

## **Recommendation and Conclusion**



## Recommendation

1. As seen in the analysis part the credit demand from the private sector is falling continuously due to the ongoing political violence, shortage of gas and electricity and high rate of interest on banks' lending. Excess liquidity has caused mainly due to the low level of demand of credit by the private sector. To overcome this crisis NRB Bank can put emphasis on medium and retail deposit and invest on government securities like treasury bills and treasury bonds with lower rate of interest. However, most of the investors are waiting for the political unrest to be over, and probably after the election they are hoping that the scenario would change.
2. The negative growth in loans for banks is due to a negative investment scenario in the country's business sector, especially after the Hallmark and Basic bank's Scandal. However, according to Bangladesh Bank's rules the credit deposit ratio should be less than 85%, and for most of the banks it was higher than that. Therefore, being a new bank in the industry, NRB Bank should be careful while investing or giving loan to any company.
3. Since the non Performing Loan for most of the Banks are higher than the industry medium and since the demand for credit has declined. NRB Bank can put extra effort to organize more medium and retail deposits that are low cost on nature, which the general public might be interested in.
4. Retail-oriented banks should increase their share of non-interest income to become more stable. Investment-oriented banks, in contrast, should decrease it. Banks are significantly less risky if they have a more balanced income structure and neither depend heavily on interest nor on non-interest income. Furthermore, they indicate that the impact of non-interest income on risk significantly depends on the activities used to generate non-interest income with retail-oriented activities being significantly less risky than investment-oriented activities such as those investing to capital markets activities. Therefore, NRB Bank should decide whether they would want to be a retail oriented bank or an investment oriented bank and depending on that they should maintain their interest and non- interest income ratio.
5. AIBI's operating efficiency has been really good over the years. And as a new bank NRB Bank should keep their operating efficiency as stable as theirs.
6. The CAR has to go up to 14 percent under Basel-II requirements, so being anew bank NRB Bank should keep it to14 percent to be on the safe side.
7. Being a new bank NRB Bank should provide better quality of service than the existing banks. This would increase competition in the Banking sector and they will also be able to meet the unfulfilled demand for credit by the private sector which has been growing day by day.

8. The banks should introduce new and innovative services and should scale up their product to make themselves more competitive in the market.
9. The government wants the new banks to serve the rural population extensively. Consequently NRB Bank should target those rural areas where there is demand for banking operation, so that it is profitable for the bank and for the people living there.
10. The existing banks have been suffering from liquidity crisis and the new banks entering in the market will deepen this crisis. So initially being a new bank NRB Bank should give more emphasis to its liquidity situation