Letter of Transmittal

August 13, 2006

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Dear Sir,

This is my pleasure to submit this term paper on Banking Industry of Bangladesh, named "Banking Sector Performance in Bangladesh".

This is the term paper that I was asked to prepare as a part of the course named BUS 498 [PROJECT WORK]. The main purpose of this paper is to provide an overview of the Banking Industry of Bangladesh and to analyze its performance.

I have considered your remark carefully and analyzed the study according to your instructions. I tried to analyze allocative, operational, and corporate and regulatory performance of all kinds of banks. I also gave some suggestions for the improvement of the Banking Industry of our country, which hopefully, can play an effective role for the betterment of the nation as a whole.

I have done my level best to complete this report in time and with the quality of your expectation. The whole anticipation of this paper enables me to get an insight into the real life situation. I have really enjoyed working on this paper. Hope my work will be able to satisfy your requirement and expectation.

I would like to express my gratitude to you for your tiresome effort for me, which provided the opportunity to complete this project.

Thank you for your kind consideration.

Sincerely

Syed Ishtiak Ahmed
Id# 2002-2-10-003

Acknowledgement

At first I present my rewards to all mighty, who have provided me the brilliant opportunity to build & complete this Project successfully with good health & sound mind.

This report is based on the performance evaluation of the Banking Industry of Bangladesh. While any and all errors of fact, omission, and emphasis are solely on my responsibility. I would remiss, if I do not acknowledge those great hearts, without whose kind help and cooperation, this paper would be jeopardized.

At first, I must humbly nod to my most honorable course instructor M. Sayeed Alam for assigning the topic and further guideline. I am really grateful to him for his kind co-operation in regard of this project paper, which will help me a lot in my future course of life.

I would also like to give my heartiest gratitude to my friends and seniors, who gave their valuable advice and encouraged me through out the work.

Finally, I would like to give thanks to my parents from the bottom of my heart for their endless support, encouragement and inspiration. They make my work and life meaningful. It is with all our love and affection that we thank them.

I desire & hope that this program will certainly help me to get a good experience, so that I can be successful & build up my career in a precise way.

Executive Summary

The Banking sector in Bangladesh is different from the banking sector as seen in other developed countries. This is one of the major service sectors in Bangladesh economy, which divided into four categories- Nationalized Bank, Local Private Bank, Specialized Financial Institutions and Foreign Banks. Their objectives, ownership pattern, mode of operation and other also differ from each other based on the category of banking to which they belong. This project paper is an effort to provide a zest of the overall performance of the Banking Sector of Bangladesh over five years (2000-2004) period. The paper includes analysis of information for five years (2000-2004) regarding branch expansion, deposit collection, loan deployment, productivity, profitability, regulatory requirements etc. In this study I have used simple statistical tool such as common size statement and percentage growth, is used to judge how they are performing within themselves in the above mentioned criteria and over all financial result. For this purpose all categories commercial banks operating during 2000 to 2004, are taken into consideration. The result shows that though majority of total assets, total and total deposits are held by the PCBs and NCBs but foreign bank outperformed other in performance. But the FCBs can be negatively criticized for their complete ignorance for rural areas. Branch activities of rural areas are dominated by NCBs and DFIs. But both deposit collection and loan deployment activities of rural areas are almost insignificant. DFIs and NCBs have failed to maintain the required provision for non-performing loans. PCBs are doing a better job in this regard whereas FCBs produce superb result as they do not have any significant NPLs. All the categories of banks except the NCBs are managed to maintain adequate capital reserve, which is more than the regulatory level.

Hope that my analysis and evaluation will provide readers with adequate information to gauge the performance of the overall banking sector of our country.

Objectives of the Study

- □ To present an overview of the Banking Industry of Bangladesh
- □ To appraise the allocative performance of PCBs, NCBs, FCBs, and DFIs
- □ To appraise the operational performance of PCBs, NCBs, FCBs, and DFIs
- □ To appraise the corporate and regulatory performance of PCBs, NCBs, FCBs, and DFIs
- □ To present the findings of the study

Limitation of the Study

To complete the study in a short time is a mammoth task. I have faced various problems in preparing this report.

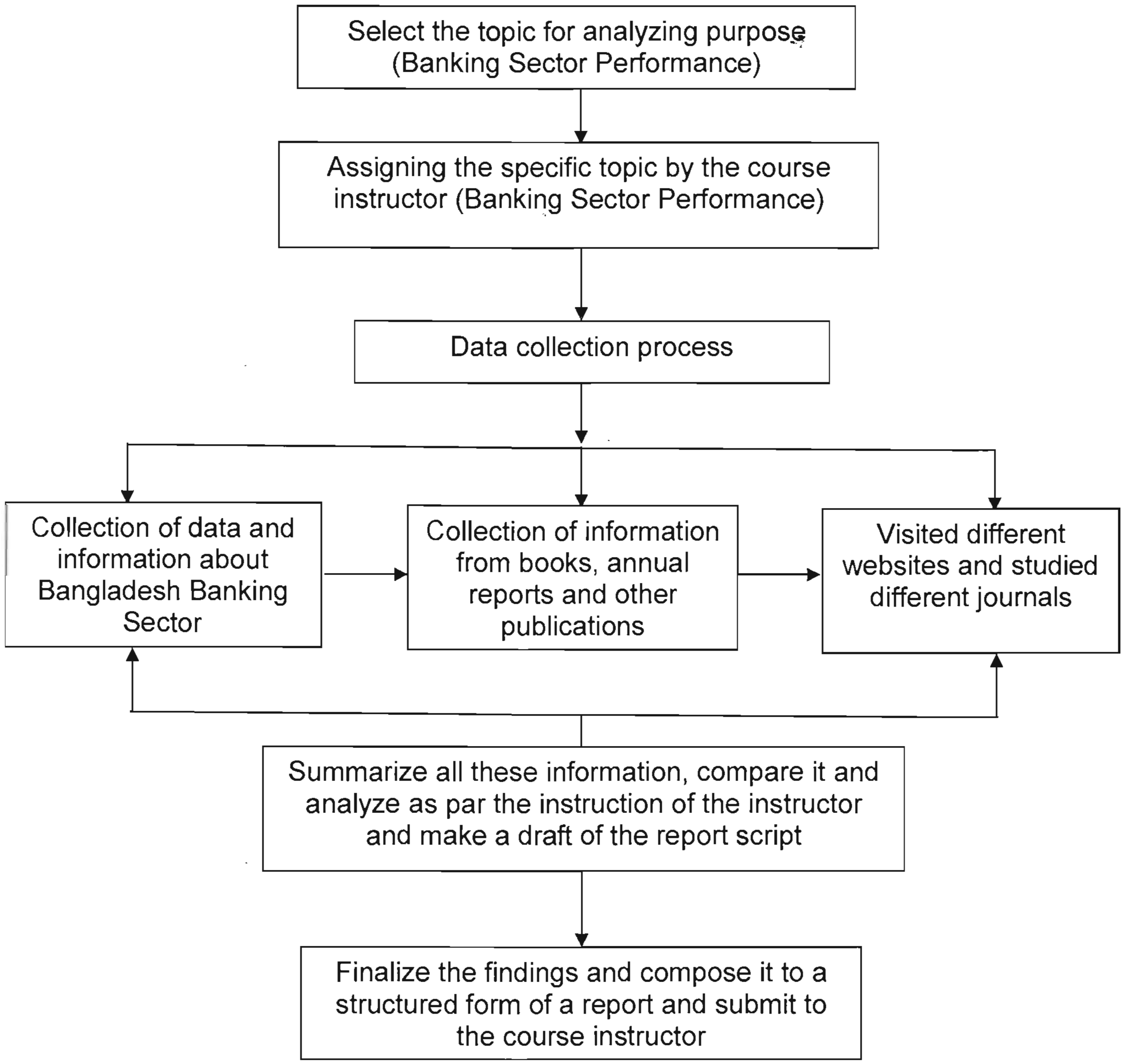
The major problem that I have faced is the unavailability of information. Most of the data and information I got from the free sources are backdated. I had to compile many scattered data, which were resulted some mismanagement of data processing.

Most of the information that I got from various sources is difficult to relate to the theoretical contents of the US based books available in the library.

Data and Methodology of the Study

Basically I have used secondary data of a time frame of 2000 to 2004 for this study. All the data and information used in this report is collected from the secondary sources. Majority of the secondary data was obtained from the Annual Reports of Bangladesh Bank, Schedule Banks Statistics and websites. All those, augmented this project to take a comprehensive shape.

The following diagram could summarize the entire methodology of the study:



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1. Preface

Bank is very old institution that is contributing toward the development of any economy and is treated as an important service industry in modern world. Nowadays the function of bank is not limited to with in the same geographical limit of any country. Due to globalization and free market economy, this industry is facing severe competition in any country and implementation of WTO will further increase competition. The overall performance of Bank does not only depend upon the banking industry itself but also on the performance of economy where it is operating. The Banking sector in Bangladesh is different from the banking sector as seen in developed countries. This is one of the major service sectors in Bangladesh economy and can be divided mainly in to four categories- Nationalized Commercial Bank, Private Commercial Bank, Development Financial Institutions and Foreign Commercial Banks.

Nowadays, Banking is one of the most sensitive businesses all over the world. Banks play very important role in the economy of a 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. It is purchase of car or buildings of home banks are always there to serve you better.

The number of banks in all now stands at 49 in Bangladesh. Out of the 49 banks, four are Nationalized Commercial Banks (NCBs), 28 Private Commercial Banks, 12 Foreign Commercial Banks and the rest five are Development Financial Institutions (DFIs).

At the moment financial sector reform programmes are underway. Private banks and insurance companies with few exceptions are functioning creditably. Uttara, Pubali and Rupali Banks which were formally owned by the GOB were privatized. Shadaran Bima Corporation's (General Insurance) 49% shares are contemplated to be off loaded in the local stock markets soon.

Bangladesh pursues a liberal market economy. Bangladesh Bank is the apex bank of the country responsible for promoting healthy growth and development of the banking system. Banks and insurance companies, both in the private and public sectors, are operating freely and contributing to the economy. Foreign banks like Standard Chartered Bank, HSBC etc. function in Bangladesh through their branches.

1.1 Social and Economic Background of Bangladesh

According to the World Bank, Bangladesh's total population was 135 million in 2004, 61% of which was between the ages of 15 and 64. The annual population growth rate has fallen to 1.5 percent from a much higher level in 1970's. In 2000, 36% of the population lived below $1 per day and 83% of the population lived below $2 per day. The World Bank reports that GDP per capita PPP adjusted was $1875 current international dollars, a 5.92% increase from 2003. The World Bank reports the informal sector accounted for 35.6 percent of GNI in 2004. Bangladesh's GINI coefficient was 0.32 in 2000. The World Bank estimates that Bangladesh's M2/GDP ratio was 0.39 in 2004. Bangladesh had a net inflow of $102 million in foreign direct investment in 2003, according to World Bank data. The country received $1,393 million in foreign aid and development assistance during 2003 based on OECD data. Bangladesh is considered one of the least developed countries.

The structure of the Bangladesh economy has undergone major change over the years. Agricultural contribution to GDP fell to about 23 percent in FY2003-04 from a much higher level in earlier decades. At the same time, the contribution of industry increased to about 27 percent and the services sector (notably trade and transport and government services) accounted for the balance of about 50 percent. Bangladesh's earnings from merchandise exports has grown at a double digit rate since the early 1990's and the level reached US$8.6 billion in FY04-05. Remittances also grew fast during the period and reached US$3.8 billion in that year. The payment for merchandise imports, on the other hand, was US$11.8 billion in FY04-05. Despite large deficits in the trade balance, in recent years, Bangladesh has maintained a positive balance in external accounts, which turned into a negative position in FY2004-05 due to rise in world commodity prices, notably oil. In June 2005, Bangladesh's gross foreign exchange reserve position was US$3 billion or about 2.7 months of import cover.

1.2 Regulatory and Legal Environment of Bangladesh

The associated costs of enforcement, legal assistance and court fees require 91% of income per capita. According to the World Bank, it takes 4 years to file for bankruptcy, costing 8% of total estate value. Creditors in Bangladesh generally recover 23.2 cents of every US dollar lost.

Bangladesh Bank raised the minimum capital requirement on a risk-weighted basis from 8 percent to 9 percent or to BDT 100 crore (whichever is higher). As a result, the capital adequacy ratio has increased from 10.9% in 2000 to 13.3% in 2004. Commercial and specialized banks, as well as Grameen Bank, are regulated by Bangladesh Bank. Commercial banks supply limited performance monitoring for MFIs that borrow from them.

1.3 Commercial Banks' Involvement in Bangladesh

Banks dominate the financial sector and other financial institutions play a relatively minor role in the economy. At present there are 49 banks in the country, of which 28 are privately owned commercial banks (PCBs), 12 are foreign owned commercial banks (FCB), 4 are state owned nationalized commercial banks (NCBs) and 5 are development finance institutions, all operating under the license and supervisory authority of the Bangladesh Bank (the central bank of the country). In recent years, the banking industry witnessed a number of positive developments.

During 1998-04, the market share of PCBs in the banking sector increased from 34% in 1998 to 51% in 2004 while that of NCBs declined from 53.5% to about 40%. During the same period, PCBs share in bank deposits increased from about 34% to about 52% while that of the NCBs declined from about 61% to about 43%. Overall performance of the banking industry also improved substantially during 2000-05 period. The 4 nationalized commercial banks operate 55% of bank branches.

2. History

The Jews in Jerusalem introduced a kind of banking in the form of money lending before the birth of Christ. The word 'bank' was probably derived from the word 'bench' as during ancient time Jews used to do money -lending business sitting on long benches. First modern banking was introduced in 1668 in Stockholm as 'Savings Pis Bank', which opened up a new era of banking activities throughout the European Mainland.

In the South Asian region, the Afgan traders popularly known as Kabuliwallas introduced early banking system. Muslim businessmen from Kabul, Afghanistan came to India and started money-lending business in exchange of interest sometime in 1312 A.D. They were known as 'Kabuliawallas'.

2.1 Emergence of Bangladesh Banking Sector

The banking system at independence consisted of two branch offices of the former State Bank of Pakistan and seventeen large commercial banks, two of which were controlled by Bangladeshi interests and three by foreigners other than West Pakistanis. There were fourteen smaller commercial banks. Virtually all-banking services were concentrated in urban areas. The newly independent government immediately designated the Dhaka branch of the State Bank of Pakistan as the central bank and renamed it the Bangladesh Bank. The bank was responsible for regulating currency, controlling credit and monetary policy, and administering exchange control and the official foreign exchange reserves. The Bangladesh government initially nationalized the entire domestic banking system and proceeded to reorganize and rename the various banks. Foreign-owned banks were permitted to continue doing business in Bangladesh. The insurance business was also nationalized and became a source of potential investment funds. Cooperative credit systems and postal savings offices handled service to small individual and rural accounts. The new banking system succeeded in establishing reasonably efficient procedures for managing credit and foreign exchange. The primary function of the credit system throughout the 1970s was to finance trade and the public sector, which together absorbed 75 percent of total advances.

The government's encouragement during the late 1970s and early 1980s of agricultural development and private industry brought changes in lending strategies. Managed by the Bangladesh Krishi Bank, a specialized agricultural banking institution, lending to farmers and fishermen dramatically expanded. The number of rural bank branches doubled between 1977 and 1985, to more than 3,330. Denationalization and private industrial growth led the Bangladesh Bank and the World Bank to focus their lending on the emerging private manufacturing sector. Scheduled bank advances to private agriculture, as a percentage of sectoral GDP, rose from 2 percent in FY 1979 to 11 percent in FY 1987, while advances to private manufacturing rose from 13 percent to 53 percent.

The transformation of finance priorities has brought with it problems in administration. No sound project-appraisal system was in place to identify viable borrowers and projects. Lending institutions did not have adequate autonomy to choose borrowers and projects and were often instructed by the political authorities. In addition, the incentive system for the banks stressed disbursements rather than recoveries, and the accounting and debt collection systems were inadequate to deal with the problems of loan recovery. It became more common for borrowers to default on loans than to repay them; the lending system was simply disbursing grant assistance to private individuals who qualified for loans more for political than for economic reasons. The rate of recovery on agricultural loans was only 27 percent in FY 1986, and the rate on industrial loans was even worse. As a result of this poor showing, major donors applied pressure to induce the government and banks to take firmer action to strengthen internal bank management and credit discipline. As a consequence, recovery rates began to improve in 1987. The National Commission on Money, Credit, and Banking recommended broad structural changes in Bangladesh's system of financial intermediation early in 1987, many of which were built into a three-year compensatory financing facility signed by Bangladesh with the IMF in February 1987.

One major exception to the management problems of Bangladeshi banks was the Grameen Bank, begun as a government project in 1976 and established in 1983 as an independent bank. In the late 1980s, the bank continued to provide financial resources to the poor on reasonable terms and to generate productive self-employment without external assistance. Its customers were landless persons who took small loans for all types of economic activities, including housing. About 70 percent of the borrowers were women, who were otherwise not much represented in institutional finance. Collective rural enterprises also could borrow from the Grameen Bank for investments in tube wells, rice and oil mills, and power looms and for leasing land for joint cultivation. The average loan by the Grameen Bank in the mid-1980s was around Tk2,000 (US$65), and the maximum was just Tk18,000 (for construction of a tin-roof house). Repayment terms were 4 percent for rural housing and 8.5 percent for normal lending operations.

The Grameen Bank extended collateral-free loans to 200,000 landless people in its first 10 years. Most of its customers had never dealt with formal lending institutions before. The most remarkable accomplishment was the phenomenal recovery rate; amid the prevailing pattern of bad debts throughout the Bangladeshi banking system, only 4 percent of Grameen Bank loans were overdue. The bank had from the outset applied a specialized system of intensive credit supervision that set it apart from others. Its success, though still on a rather small scale, provided hope that it could continue to grow and that it could be replicated or adapted to other development-related priorities. The Grameen Bank was expanding rapidly, planning to have 500 branches throughout the country by the late 1980s.

Beginning in late 1985, the government pursued a tight monetary policy aimed at limiting the growth of domestic private credit and government borrowing from the banking system. The policy was largely successful in reducing the growth of the money supply and total domestic credit. Net credit to the government actually declined in FY 1986. The problem of credit recovery remained a threat to monetary stability, responsible for serious resource misallocation and harsh inequities. Although the government had begun effective measures to improve financial discipline, the draconian contraction of credit availability contained the risk of inadvertently discouraging new economic activity.

Foreign exchange reserves at the end of FY 1986 were US$476 million, equivalent to slightly more than 2 months worth of imports. This represented a 20-percent increase of reserves over the previous year, largely the result of higher remittances by Bangladeshi workers abroad. The country also reduced imports by about 10 percent to US$2.4 billion. Because of Bangladesh's status as a least developed country receiving concessional loans, private creditors accounted for only about 6 percent of outstanding public debt. The external public debt was US$6.4 billion, and annual debt service payments were US$467 million at the end of FY 1997.

2.2 International Banks

The World Bank has taken the lead in addressing some of the most deep-seated structural constraints in Bangladesh's economy by providing productive employment for those without assets, promoting economic opportunities for women, and addressing the social and economic inadequacies of education, health, nutrition, and population programs. Among aid projects were the Irrigation Management Programme, which supports drainage and flood control as well as the introduction of pumps and drills; support for maintenance of the nation's more than 43,000 primary schools (including repairs to existing buildings, additions to accommodate larger numbers of pupils, and construction of new schools where needed); and the 500,000-ton Ashuganj fertilizer complex, utilizing domestic natural gas, which came on stream in 1981. The World Bank has made loans to Bangladesh only from its "soft window," the International Development Association.

The Asian Development Bank was the second largest donor, after the International Development Association, to Bangladesh's development in the 1980s. As of the end of 1985, the Bank had approved 66 loans totaling US$1.8 billion. In 1985 alone, the bank approved loans of US$212.3 million for 6 new projects (down from US$306.8 million for 4 projects the year before). In addition, the bank provided local currency financing of US$59.8 million for 3 projects, cofinancing of US$10.5 million to projects with other donors, and a program loan of US$39 million for provision of fertilizer. About half of the Asian Development Bank's financing has gone to agriculture and agro-industry. The 1985 package, for example, included a livestock development project intended to increase food production and improve rural incomes through expansion of veterinary services and livestock nutrition. In 1987 the Asian Development Bank approved a technical assistance grant (cofinanced by the Norwegian government) to explore the feasibility of growing rubber trees commercially in Bangladesh. The Asian Development Bank also has been active in the development of natural gas. In 1987 the bank approved a US$74 million loan for construction and extension of natural gas transmission and distribution pipelines to 5 districts in eastern Bangladesh. The loan was intended to cover 71 percent of project costs, including all of the foreign exchange requirements for the project. The bank has also supported transportation projects (development and improvement of feeder roads between local markets and primary roads, inland waterways, and railroads) and social welfare schemes for population control, health, and education.

3. An overview of Bangladesh Banking Sector

The number of banks in all now stands at 49 in Bangladesh. Out of the 49 banks, four are Nationalized Commercial Banks (NCBs), 28 local private commercial banks, 12 foreign banks and the rest five are Development Financial Institutions (DFIs).

Sonali Bank is the largest among the NCBs while Pubali is leading in the private ones. Among the 12 foreign banks, Standard Chartered has become the largest in the country. Besides the scheduled banks, Samabai (Cooperative) Bank, Ansar-VDP Bank, Karmasansthan (Employment) Bank and Grameen bank are functioning in the financial sector. The number of total branches of all scheduled banks is 6,038 as of June 2000. Of the branches, 39.95 per cent (2,412) are located in the urban areas and 60.05 per cent (3,626) in the rural areas. Of the branches NCBs hold 3,616, private commercial banks 1,214, foreign banks 31 and specialised banks 1,177. Bangladesh Bank (BB) regulates and supervises the activities of all banks. The BB is now carrying out a reform programme to ensure quality services by the banks.

Bangladesh Bank

Bangladesh Bank (BB) has been working as the central bank since the country's independence. Its prime jobs include issuing of currency, maintaining foreign exchange reserve and providing transaction facilities of all public monetary matters. BB is also responsible for planning the government's monetary policy and implementing it thereby.

The BB has a governing body comprising of nine members with the Governor as its chief. Apart from the head office in Dhaka, it has nine more branches, of which two in Dhaka and one each in Chittagong, Rajshahi, Khulna, Bogra, Sylhet, Rangpur and Barisal.

Nationalised Commercial Banks (NCBs)

1. Sonali Bank
2. Janata Bank

3. Agrani Bank

4. Rupali Bank

Private Commercial Banks (PCBs)

1. Pubali Bank
2. Uttara Bank
3. National Bank Ltd.
4. The City Bank Ltd.
5. United Commercial Bank Ltd.
6. Arab Bangladesh Bank Ltd.
7. IFIC Bank Ltd.
8. Islami bank Bangladesh Ltd.
9. Al Baraka Bank Bangladesh Ltd.
10. Eastern Bank Ltd.
11. National Credit & Commerce Bank Ltd.
12. Prime Bank Ltd.
13. South East Bank Ltd.
14. Dhaka Bank Ltd.
15. Al-Arafah Islami Bank Ltd.
16. Social Investment Bank Ltd.
17. Dutch-Bangla Bank Ltd.
18. Mercantile Bank Ltd.
19. Standard Bank Ltd.
20. One Bank Ltd.
21. EXIM Bank
22. Bangladesh Commerce Bank Ltd.
23. Mutual Trust Bank Ltd.
24. First Security Bank Ltd.
25. The Premier Bank Ltd.

26. Bank Asia Ltd.

27. The Trust Bank Ltd.

28. Shah Jalal Bank Limited (Based on Islamic Shariah)

Foreign Banks

1. American Express Bank
2. Standard Chartered Bank
3. Habib Bank Ltd.
4. State Bank Of India
5. Credit Agricole Indosuez (The Bank)
6. National Bank of Pakistan
7. Muslim Commercial Bank Ltd.
8. Citi Bank NA
9. Hanvit Bank Ltd.
10. HSBC Ltd.
11. Shamil Islami Bank Of Bahrain EC
12. Bank Alfalah Limited

Development Banks

1. Bangladesh Krishi Bank
2. RajshahiKrishiUnnayan Bank
3. Bangladesh Shilpa Bank
4. Bangladesh Shilpa Rin Sangstha
5. Bank of Small Industries & Commerce Bangladesh Ltd.

Other

1. Ansar VDP Unnayan Bank
2. Bangladesh Samabai Bank Ltd. (BSBL)
3. Grameen Bank
4. Karmasansthan Bank

The performance of these banks differs widely within same group and individually. Banking industry in Bangladesh is very competitive due to existence of different types of banking such nationalized, private and foreign. Nationalized Banks gets extra privileges from government in many ways compared to other banks. For the purpose of this study analysis is kept with in the nationalized, local private and foreign banks of Bangladesh.

3.1 Common Services offered

Accounts, Current, FDR, PDS, Deposit Scheme

Current Account

Generally this sort of account opens for business purpose. Customers can withdraw money once or more against their deposit. No interest can be paid to the customers in this account. If the amount of deposit is below taka 1,000 on an average the bank has authority to cut taka 50 from each account as incidental charge after every six months. Against this account loan facility can be ensured. Usually one can open this account with taka 500. One can open this sort of account through cash or check/bill. All the banks follow almost the same rules for opening current account.

Savings Bank Account

Usually customers open this sort of account at a low interest for only security. This is also an initiative to create people's savings tendency. Generally, this account is to be opened at taka 100. Interest is to be paid in June and December after every six months. If money is withdrawn twice a week or more than taka 10,000 is withdrawn (if 25% more compared to total deposit) then interest is not paid. This account guarantees loan. Almost all the banks follow the same rules in the field of savings account, except foreign banks for varying deposit. On an average, all the banks give around six percent interest.

Special Services

Some Banks render special services to the customers attracting other banks.

Internet Banking

Customers need an Internet access service. As an Internet Banking customer, he/she will be given a specific user ID and a confident password. The customer can then view his account balances online. It is the industry-standard method used to protect communications over the Internet.

To ensure that customers' personal data cannot be accessed by anyone but them, all reporting information has been secured using Version and Secure Sockets Layer (SSL).

Home Banking

Home banking frees customers of visiting branches and most transactions will be automated to enable them to check their account activities transfer fund and to open L/C sitting in their own desk with the help of a PC and a telephone.

Electronic Banking Services for Windows (EBSW)

Electronic Banking Service for Windows (EBSW) provides a full range of reporting capabilities, and a comprehensive range of transaction initiation options.

The customers will be able to process all payments as well as initiate L/Cs and amendments, through EBSW. They will be able to view the balances of all accounts, whether with Standard Chartered or with any other banks using SWIFT. Additionally, transactions may be approved by remote authorization even if the approver is out of station.

Automated Teller Machine (ATM)

Automated Teller Machine (ATM), a new concept in modern banking, has already been introduced to facilitate subscribers 24 hour cash access through a plastic card. The network of ATM installations will be adequately extended to enable customers to non-branch banking beyond banking.

Tele Banking

Tele Banking allows customers to get access into their respective banking information 24 hours a day. Subscribers can update themselves by making a phone call. They can transfer any amount of deposit to other accounts irrespective of location either from home or office.

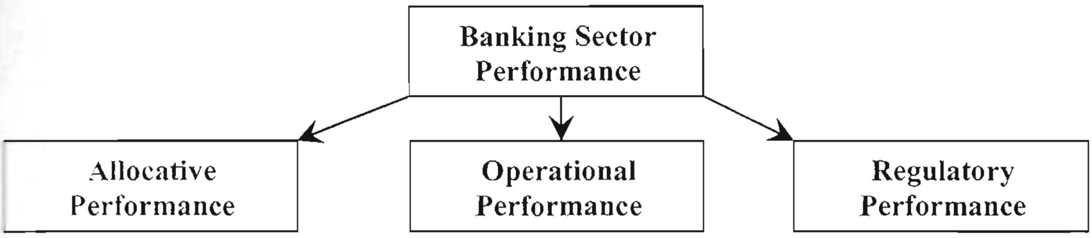
SWIFT

SWIFT is a bank owned non-profit co-operative based in Belgium servicing the financial community worldwide. It ensures secure messaging having a global reach of 6,495 Banks and Financial Institutions in 178 countries, 24 hours a day. SWIFT global network carries an average 4 million message daily and estimated average value of payment messages is USD 2 trillion.

SWIFT is a highly secured messaging network enables Banks to send and receive Fund Transfer, L/C related and other free format messages to and from any banks active in the network.

Having SWIFT facility, Bank will be able to serve its customers more profitable by providing L/C, Payment and other messages efficiently and with utmost security. Especially it will be of great help for our clients dealing with Imports, Exports and Remittances etc.

4. Performance Analysis of Bangladesh Banking Sector



4.1 Allocative Performance

4.1.1 Branch Measures

4.1.1.1 Growth of Branches

Table 1: Growth of Branches

Year	NCB		DFI		FCB		PCB	
	No. of Branches	Growth	No. of Branches	Growth	No. of Branches	Growth	No. of Branches	Growth
2000	3608		1213		34		1264	
2001	3606	-0.06%	1216	0.25%	33	-2.94%	1327	4.98%
2002	3483	-3.41%	1310	7.73%	31	-6.06%	1407	6.03%
2003	3391	-2.64%	1314	0.31%	33	6.45%	1482	5.33%
2004	3388	-0.09%	1328	1.07%	37	12.12%	1550	4.59%

Source: Scheduled Banks Statistics of Bangladesh Bank, 2000-2004

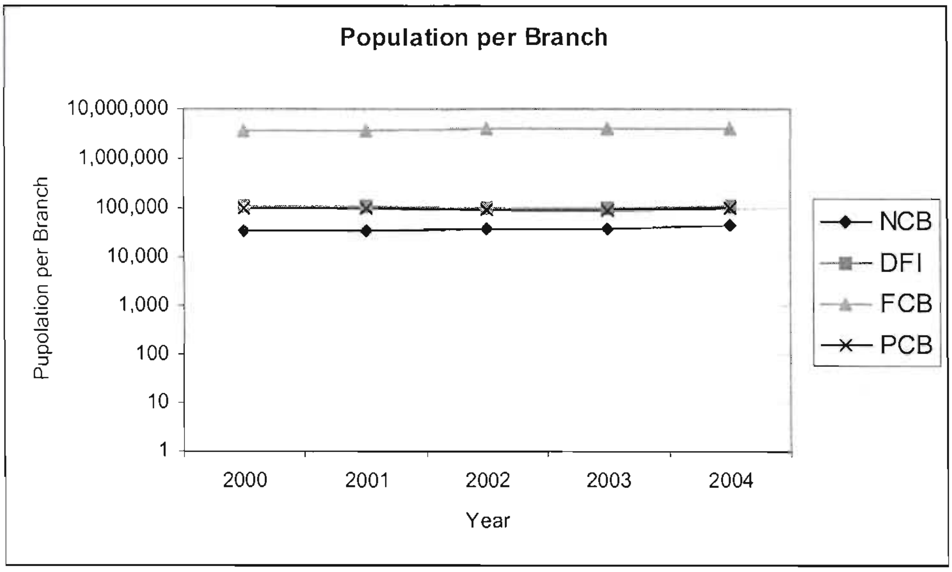
The above table depicts the growth of branches of all four categories of banks operating in our country from the year 2000 to 2004. Here we can see the growth of NCB is negative over the years. It indicates that NCBs are not expanding their branches, which is not expected at all. In case of DFI, there is a positive growth over the years and the year 2002 the most significant growth has occurred. FCBs are growing at a very faster rate in regards of branches in recent time, which shows, their aggressiveness in grabbing more customers. PCBs are also growing but not as first as FCBs in recent years.

4.1.1.2 Population per branch

Table 2: Population per branch

		Population per Branch			
Year	Population	**NCB**	**DFI**	**FCB**	**PCB**
2000	128,100,000	35,504	105,606	3,767,647	101,345
2001	129,900,000	36,023	106,826	3,936,364	97,890
2002	131,600,000	37,784	100,458	4,245,161	93,532
2003	133,400,000	39,339	101,522	4,042,424	90,013
2004	149,800,000	44,215	112,801	4,048,649	96,645

Source: Scheduled Banks Statistics of Bangladesh Bank, 2000-2004



Source: Scheduled Banks Statistics of Bangladesh Bank, 2000-2004

The above table shows the number of people served by a branch of a bank. Here, two variables are involved. One is population and the other is number of branches of the banks. As NCBs' number of branches is declining over the years and at the same time population is increasing, the availability of bank services to people decreases. DFI produces the same result, except the year 2002, where there was a sharp increase in the number of branches. FCBs show an improving scenario, meaning that they make themselves more available to their customers. PCBs also try to compete with FCBs and make themselves more available to customers by increasing the number of branch.

4.1.1.3 Area-wise branch expansion

Table 3: Area-wise branch expansion

NCB		
Year	% of Urban	% of Rural
2000	37.03%	62.97%
2001	37.02%	62.98%
2002	37.70%	62.30%
2003	36.69%	63.31%
2004	36.63%	63.37%

DFI		
Year	% of Urban	% of Rural
2000	12.37%	87.63%
2001	12.25%	87.75%
2002	11.45%	88.55%
2003	11.42%	88.58%
2004	11.37%	88.63%

FCB		
Year	% of Urban	% of Rural
2000	100.00%	0.00%
2001	100.00%	0.00%
2002	100.00%	0.00%
2003	100.00%	0.00%
2004	100.00%	0.00%

PCB		
Year	% of Urban	% of Rural
2000	74.37%	25.63%
2001	74.23%	25.77%
2002	74.20%	25.80%
2003	74.16%	25.84%
2004	74.19%	25.81%

Source: Scheduled Banks Statistics of Bangladesh Bank, 2000-2004

The above tables show the area-wise branch expansion by different categories of banks. Most of the branches of NCBs are located in rural area. And in recent years (2003, 2004), NCBs are more concentrating in rural areas. The area-wise branch expansion by DFI. DFI also concentrating more in rural area, which is more intense in compare to NCBs. The area-wise branch expansions by FCBs. FCBs are just opposite of NCBs and FCBs. They have no branches in rural area, 100% concentration on urban area. May be they don't think doing business in rural areas would be profitable for them. The area-wise branch expansions by PCBs. PCBs are also concentrating in urban areas but not as intense as FCBs. PCBs also have branches in rural area. And they are increasing their operations in rural area over the years. The overall concentration of the banks in our country. Over the years the overall concentration is on rural area. Although FCBs and PCBs are mainly concentrating in urban areas, that is offset by a very strong participation by PCBs and DFIs in rural area.

4.1.1.4 Division-wise branch expansion

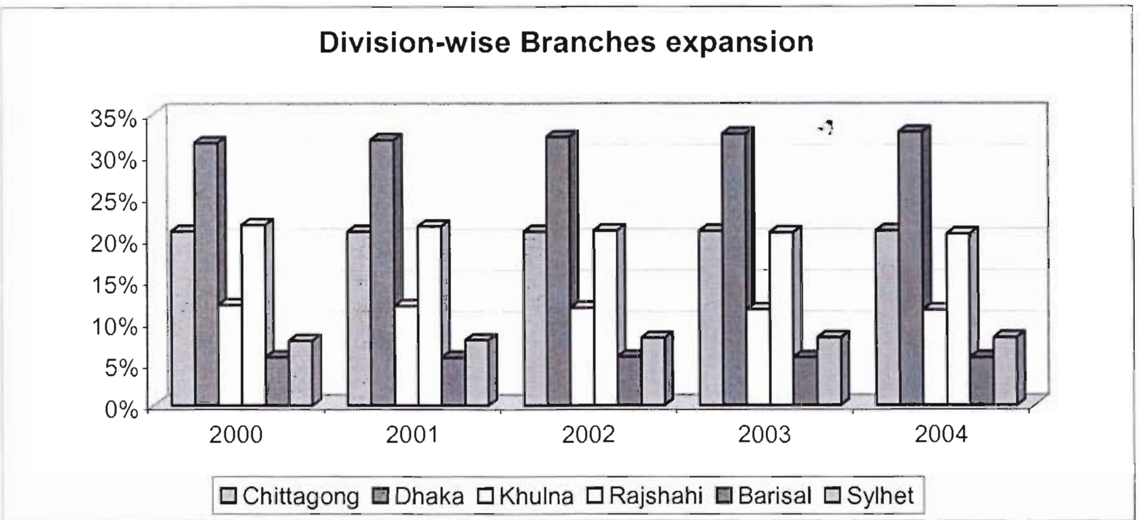
Table 4: Division-wise branch expansion

	Chittagong		Dhaka		Khulna	
Year	%	Growth	%	Growth	%	Growth
2000	20.97%		31.54%		12.09%	
2001	20.90%	0.70%	31.92%	2.23%	11.99%	0.14%
2002	20.93%	0.93%	32.27%	1.93%	11.76%	-1.08%
2003	21.03%	0.31%	32.64%	0.94%	11.56%	-1.91%
2004	21.05%	1.45%	32.84%	1.97%	11.49%	0.70%

	Rajshahi		Barisal		Sylhet	
Year	%	Growth	%	Growth	%	Growth
2000	21.75%		5.82%		7.83%	
2001	21.56%	0.15%	5.76%	0.00%	7.88%	1.67%
2002	21.06%	-1.58%	5.84%	2.25%	8.14%	4.11%
2003	20.80%	-1.37%	5.79%	-1.10%	8.18%	0.39%
2004	20.67%	0.70%	5.76%	0.83%	8.19%	1.38%

Source: Scheduled Banks Statistics of Bangladesh Bank, 2000-2004

The above table depicts the division-wise branch expansion of all types of banks as a whole. Most of the branches are located in Dhaka, followed by Rajshahi and Chittagong. Barisal has the lowest percentage of bank branches among the six divisions. In case of divisional growth, Chittagong has a positive trend but the degree if expansion is varying over the years. In Dhaka division the rate of expansion is declining from 2000 to 2003, but there is sharp growth in 2004. In Khulna division some branches has shut down in 2002 and 2003. In 2004, some new branches are opened, resulting a positive growth. In case of growth of branches in Rajshahi division the result is same as Khulna division. Barisal shows a fluctuating growth trend whereas Sylhet shows a significant growth in 2002, but in the following years the growth is positive but not as high as 2002.



Source: Scheduled Banks Statistics of Bangladesh Bank, 2000-2004

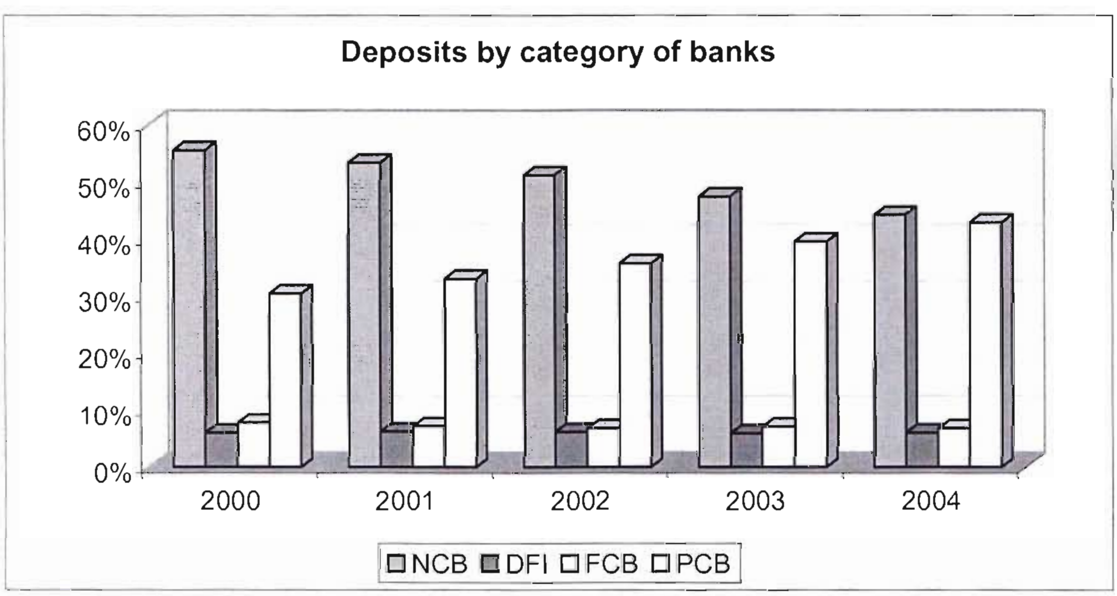
4.1.2 Deposit Measures

4.1.2.1 Deposits by category of banks

Table 5: Deposits by category of banks

	NCB		DFI		FCB		PCB	
Year	%	Growth	%	Growth	%	Growth	%	Growth
2000	55.68%		6.03%		7.79%		30.50%	
2001	53.50%	10.64%	6.23%	18.95%	7.19%	6.30%	33.07%	24.84%
2002	51.28%	9.12%	6.17%	12.67%	6.81%	7.84%	35.74%	23.04%
2003	47.46%	6.25%	5.89%	9.61%	7.09%	19.40%	39.57%	27.07%
2004	44.25%	6.31%	6.02%	16.57%	6.82%	9.75%	42.91%	23.64%

Source: Scheduled Banks Statistics of Bangladesh Bank, 2000-2004



Source: Scheduled Banks Statistics of Bangladesh Bank, 2000-2004

NCBs have the highest percentage of deposit followed by PCB. FCBs and DFIs contribution to total deposit is not that much significant. The growths of deposit collection by NCBs are declining over the years. DFIs deposit growth is also declining over the years but there is a significant improvement in 2004. FCBs growth of deposit collection is also increasing. 2003 was the most successful year for FCBs in regard of deposit collection. But they failed to sustain this huge increase of deposit collection in the next year. PCB has the most commendable growth of deposit collection among all types of banks.

4.1.2.2 Deposit per branch

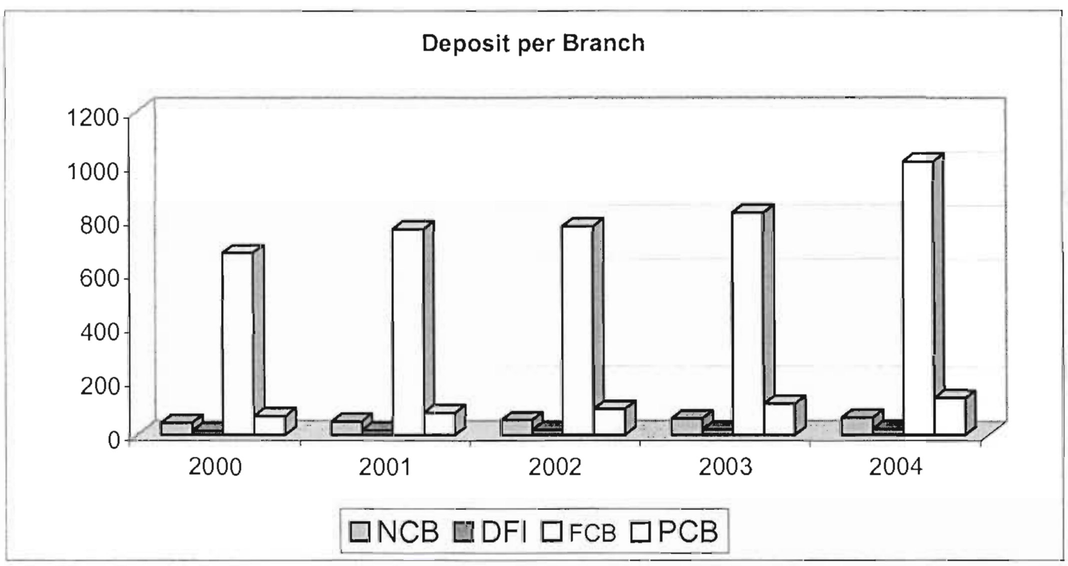
Table 6: Deposit per branch

(Taka in Crores)

Year	NCB	DFI	FCB	PCB
2000	44.20	14.24	676.25	69.11
2001	48.92	16.90	765.21	82.19
2002	55.27	17.67	775.19	95.37
2003	60.32	19.31	825.50	115.06
2004	64.18	22.27	1015.82	136.01

Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004

FCBs have the highest amount of deposit per branch, which is because of limited number of branches and increasing deposit collection. FCB is followed by PCB. In spite of having the highest number of branches, NCBs has a very good collection of deposit and their deposit collection is increasing over the years.



Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004

4.1.2.3 Area-wise deposit

Table 7: Area-wise deposit

Year	NCB		DFI		PCB		FCB	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
2000	73%	27%	58%	42%	93%	7%	100%	0%
2001	72%	28%	58%	42%	93%	7%	100%	0%
2002	73%	27%	59%	41%	93%	7%	100%	0%
2003	75%	25%	58%	42%	93%	7%	100%	0%
2004	76%	24%	57%	43%	95%	5%	100%	0%

Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004

Most of the deposits of NCBs are coming from urban area. This is also true for DFI. But DFIs deposit collection from rural area is also noteworthy. Almost all of the deposits collected by PCBs are coming from urban area whereas FCBs 100% deposits are coming from urban area as FCBs have no branches in rural area.

Table 8: Area-wise deposit (All Banks)

Year	% of Deposits		Growth of Deposits	
	Urban	Rural	Urban	Rural
2000	78.25%	21.75%		
2001	80.35%	19.65%	18.22%	4.02%
2002	80.80%	19.20%	14.49%	11.25%
2003	82.76%	17.24%	17.57%	3.10%
2004	84.25%	15.75%	16.06%	4.16%

Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004

The above table shows urban area's dominating contribution in aggregate deposit collection. And the percentage of contribution is increasing year after year whereas the percentage contribution of deposit by rural area is showing a decreasing trend. Growth of deposit of urban area is also very significant through out the period. The highest growth was experienced in 2001 (18.22%) and the lowest in 2002 (14.49%). On the other hand growth of deposit in rural area is not that much significant. The highest growth was in 2002 that is 11.255 and the lowest was in 2003 (3.10%)

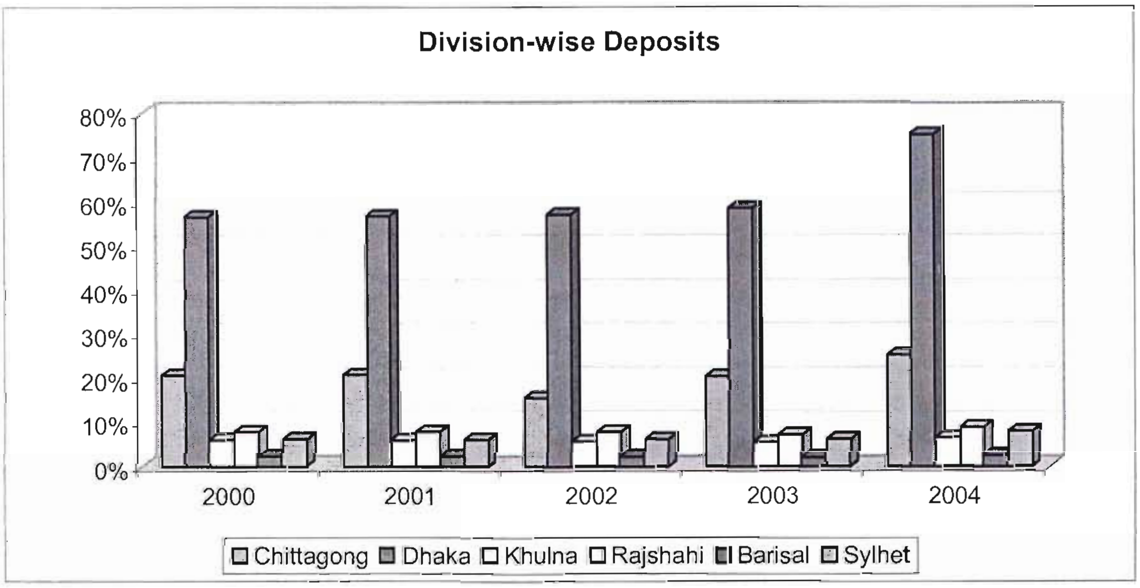
4.1.2.4 Division-wise deposit

Table 9: Division-wise deposit

Year	Chittagong		Dhaka		Khulna	
	%	Growth	%	Growth	%	Growth
2000	20.63%		56.68%		6.12%	
2001	20.75%	15.78%	56.86%	15.50%	6.04%	13.54%
2002	15.55%	-14.67%	57.23%	14.58%	5.73%	8.03%
2003	20.39%	50.49%	58.63%	17.61%	5.49%	10.06%
2004	25.20%	11.44%	75.45%	16.02%	6.49%	6.63%

Year	Rajshahi		Barisal		Sylhet	
	%	Growth	%	Growth	%	Growth
2000	7.86%		2.45%		6.26%	
2001	7.85%	14.95%	2.45%	15.20%	6.06%	11.40%
2002	7.72%	11.94%	2.34%	8.64%	6.17%	15.96%
2003	7.13%	6.03%	2.20%	7.97%	6.17%	14.77%
2004	8.76%	10.78%	2.65%	8.82%	7.90%	15.54%

Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004



Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004

Dhaka division's contribution in overall deposit collection is the highest among all the divisions through out the period, which is always more than 50%. The highest contribution was experienced in 2004. Dhaka division is followed by Chittagong, Rajshahi, Sylhet, Khulna and Barisal. There is a steady growth in deposit collection in Dhaka division which was highest in 2003 (17.61%) and lowest in 2002 (14.58%). The growth in Chittagong division is very much fluctuating, which was highest in 2003 (50.49%) and lowest in 2002 (-14.67%). Khulna divisions overall deposit growth is deteriorating over the years. Rajshahi divisions deposit growth was declining from 2000 to 2003 and again improved in 2004. Barisal produced the same result as Rajshahi whereas Sylhet division' growth is very steady and impressive and improving in most of years.

4.1.3 Loan Measures

4.1.3.1 Sectoral allocation of Loans

Table 10: Sectoral allocation of Loans

Year	Public Sector		Private Sector		Ratio
	%	Growth	%	Growth	(Public/Private)
2000	9.16%		90.84%		10.08%
2001	8.14%	2.61%	91.86%	16.70%	8.86%
2002	8.30%	14.88%	91.70%	12.51%	9.05%
2003	6.63%	-12.11%	93.37%	12.05%	7.10%
2004	4.03%	-31.76%	95.87%	15.24%	4.20%

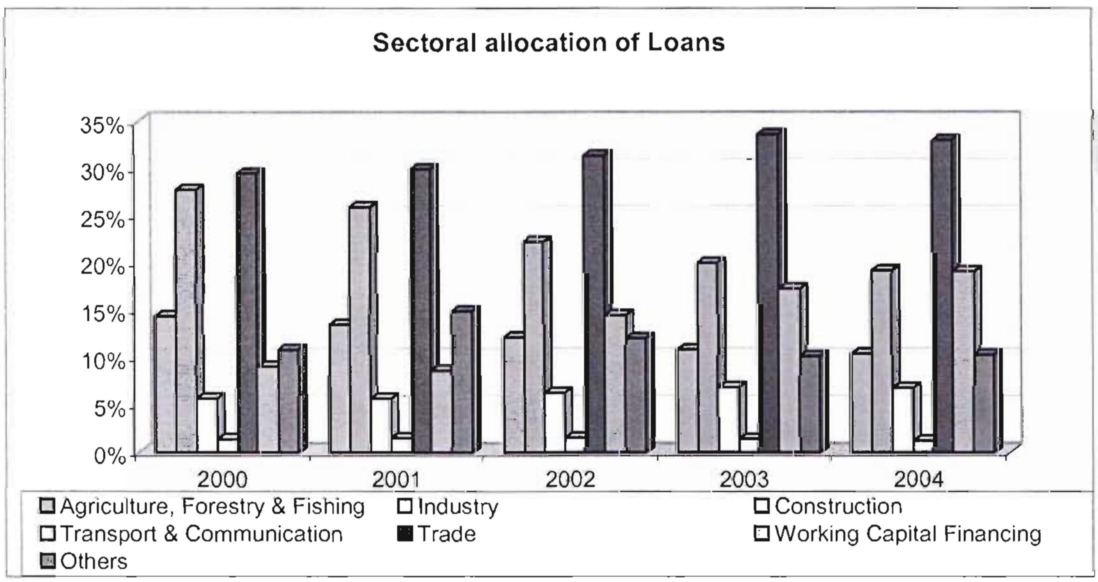
Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004

The above table shows that the significant portion (more than 90%) of loan goes to private sector over the period and it is increasing year by year whereas loan to public sector is deteriorating. If we look at Public to Private ratio, we can observe that the ratio in declining through out the period.

Table 11: Sectoral allocation of Loans (Economic Purpose-wise)

Year	Agriculture, Forestry & Fishing	Industry	Construction	Transport & Communication	Trade	Working Capital Financing	Others
	%	%	%	%	%	%	%
2000	14.37%	27.73%	5.69%	1.39%	29.46%	9.06%	10.80%
2001	13.47%	25.89%	5.68%	1.53%	29.89%	8.67%	14.87%
2002	12.14%	22.19%	6.29%	1.57%	31.35%	14.43%	12.03%
2003	10.81%	19.94%	6.87%	1.41%	33.62%	17.23%	10.11%
2004	10.42%	19.18%	6.80%	1.23%	33.01%	19.05%	10.31%

Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004



Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004

Highest percentage (29% and above) of loan has given in trade sector through out the period and it has a increasing trend. Trade sector is followed by working capital financing, which also has shown an increasing trend and increased significantly in the recent year (14% and above). Industrial sector loan is declining through out the period. Construction sector loan is also increasing. Loan to transportation and communication is almost in significant and deteriorating over the period. Loan in other sectors are almost steady and that is above 10% through out the period.

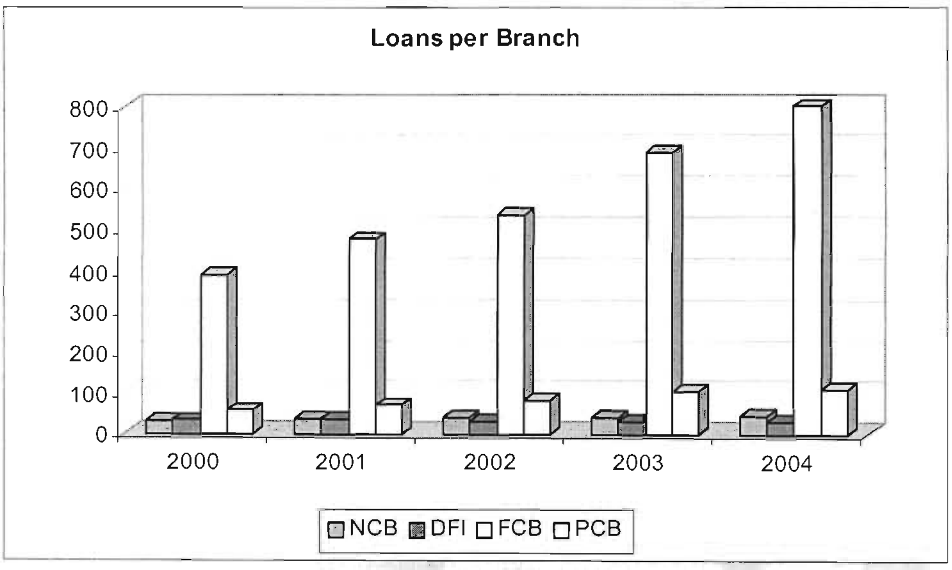
4.1.3.2 Loans per branch

Table 12: Loans per branch

(Taka in Crores)

Year	NCB	DFI	FCB	PCB
2000	32.11	33.25	389.63	56.42
2001	35.14	34.85	476.49	70.48
2002	39.36	33.10	533.22	81.45
2003	42.18	31.10	687.14	105.35
2004	44.24	31.65	798.57	108.33

Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004



Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004

FCBs have the highest amount of loan per branch, which is because of limited number of branches and increasing loan disbursement. FCB is followed by PCB. NCBs loan disbursement per branch is improving but not as much as FCB or PCB. DFIs loan disbursement per branch is declining year after year.

4.1.3.3 Performing and non-performing Loans

Table 12: Performing and non-performing Loans

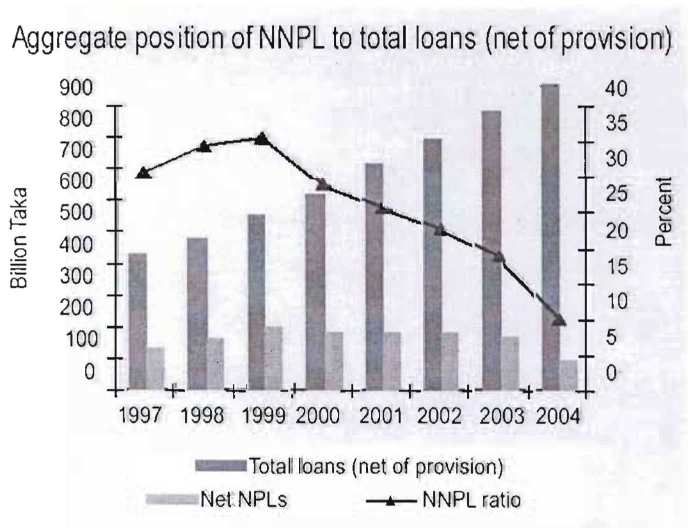
Percent %

Year	NCB	DFI	PCB	FCB	Total
2000	34.1	54.6	15.5	-0.1	28.8
2001	32.8	54.5	10.5	-0.3	25.6
2002	30.1	48	10.5	-0.4	22.6
2003	28.3	38.3	8.3	0.1	18.8
2004	17.6	23	3.4	-1.5	9.8

Source: Bangladesh Bank Annual Report 2004-2005

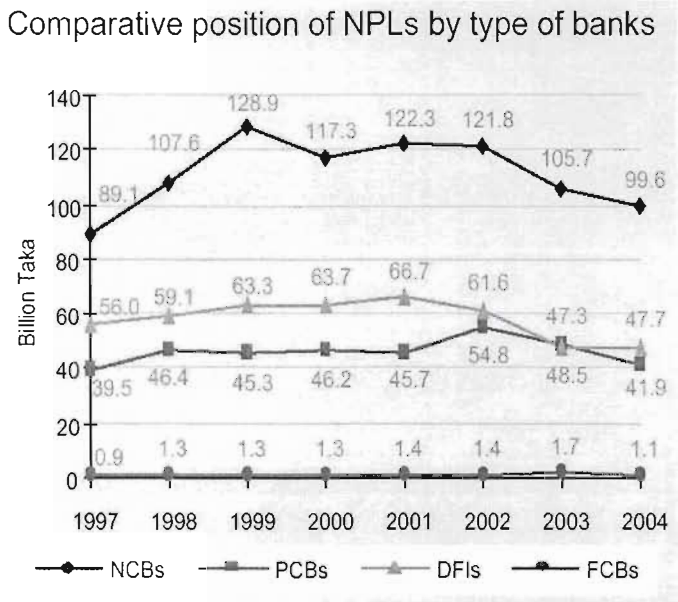
The most important indicator intended to identify problems with asset quality in the loan portfolio is the percentage non-performing loans (NPLs) to total assets and total advances.

The NCBs and DFIs continue to have very high NPLs mainly due to substantial loans provided by them on considerations other than commercial and under directed credit programmes during the 70s and 80s. Poor appraisal and inadequate follow-up and supervision of the loans disbursed by the NCBs and DFIs in the past eventually resulted in massive booking of poor quality assets which still continue to remain significant in the portfolio of these banks. Furthermore, the banks were reluctant to write off the historically bad loans because of poor quality of underlying collaterals and to avoid any possible legal complication due to lacunas in the judicial framework. Recovery of NPLs however witnessed some signs of improvement; mainly because of the steps taken with regard to internal restructuring of these banks to strengthen their loan recovery mechanism and recovery drive and write off measures initiated in recent years. *(Source: Bangladesh Bank Annual Report 2004-2005)*



(Source: Bangladesh Bank Annual Report 2004-2005)

It appears from the above table that the non-performing loans to total loans after adjustment of actual provision and interest suspense stand at 17.6 percent (NCBs), 23.0 percent (DFIs), 3.4 percent (PCBs) and 9.8 percent (Banking Sector). NCBs' and DFIs' non-performing portfolio is still high after adjustment of actual provision and interest suspense.



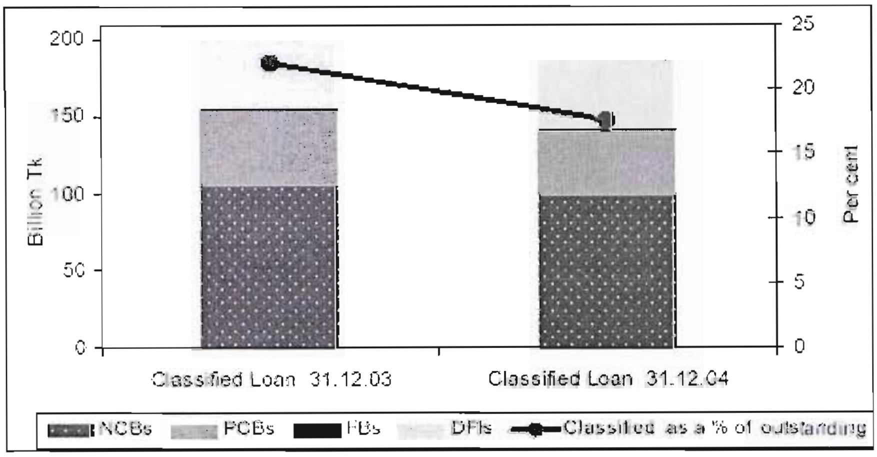
(Source: Bangladesh Bank Annual Report 2004-2005)

The above chart graphically displays the amounts in NPLs of the 4 types of banks since 1997 through 2000. Amount of NPLs of the NCBs increased from Taka 89.1 billion in 1997 to Taka 99.6 billion in 2004 although the ratio had declined. The PCBs also recorded a total increase of Taka 2.5 billion in their NPL accounts, which stood at Taka 41.9 billion in 2004 against Taka 39.4 billion in 1997. The amount of NPLs of the DFIs decreased to Taka 47.7 billion in 2004 from Taka 56.0 billion in 1997. The decline in NPL ratios in the recent years can be attributed partly to some progress in recovery of long outstanding loans and partly to write-offs of loans classified as 'bad' or 'loss' for over five years. *(Source: Bangladesh Bank Annual Report 2004-2005)*

4.1.3.3.1 Loan Default Scenario

As of 31 December 2004, total classified loan stood at Tk 18726.42 crore, registering a (-) 7.84 per cent negative growth over the matched period (December 31, 2003) of the previous year, when the total classified loan stood at Tk 20319.53 crore. Consequently, the share of classified loans in total outstanding loans decreased from 22.13 per cent to 17.63 per cent between the same time intervals. All the banks made significant progress during the reporting period of FY05 in reducing the total classified loan. NCBs, PCBs, FCBs and DFIs recorded negative growth rates of (-) 5.80 per cent, (-) 13.54 per cent, (-) 36.62 per cent, and (-) 5.51 per cent respectively over the matched period of the preceding year (FY04). For all banks, the share of classified loans in total outstanding loans also decreased significantly. [Source: *Independent Review of Bangladesh's Development (IRBD), Center for Policy Dialogue* (CPD)]

Classified Loan by Banks



Source: *CPD-IRBD Database, 2005.*

4.1.3.4 Area-wise Loans

Table 13: Area-wise Loans

Year	% of Loans		Growth of Loans	
	Urban	Rural	Urban	Rural
2000	83.83%	16.17%		
2001	85.98%	14.02%	18.37%	0.08%
2002	87.10%	12.90%	14.17%	3.71%
2003	88.31%	11.69%	11.58%	-0.27%
2004	89.20%	10.80%	13.37%	3.68%

Source: Bangladesh Bank Annual Report 2004-2005

The above table shows that the major portion of loan is deployed in urban sector and increasing year after year (more than 83%). But the percentage of loan growth is decreasing from 2000 to 2003 and increasing in 2004 year whereas the percentage growth of loan deployment rural area is fluctuating. It was increased in 2002, negative in 2003 and again increasing in 2004. Percentage contribution of rural loan to total loan is declining over the years.

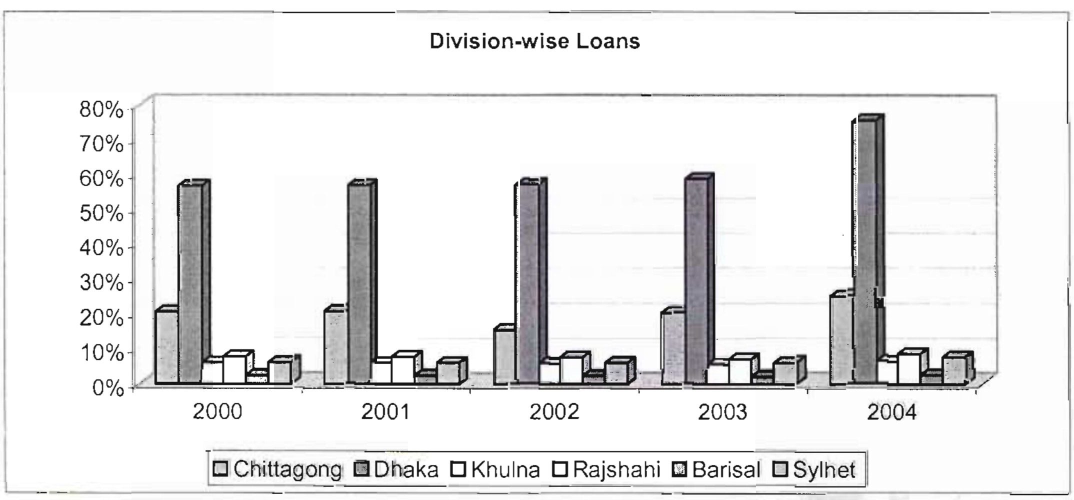
4.1.3.5 Division-wise Loans

Table 14: Division-wise Loans

Year	Chittagong		Dhaka		Khulna	
	%	Growth	%	Growth	%	Growth
2000	20.63%		56.68%		6.12%	
2001	20.75%	15.78%	56.86%	15.50%	6.04%	13.54%
2002	15.55%	-14.67%	57.23%	14.58%	5.73%	8.03%
2003	20.39%	50.49%	58.63%	17.61%	5.49%	10.06%
2004	25.20%	11.44%	75.45%	16.02%	6.49%	6.63%

Year	Rajshahi		Barisal		Sylhet	
	%	Growth	%	Growth	%	Growth
2000	7.86%		2.45%		6.26%	
2001	7.85%	14.95%	2.45%	15.20%	6.06%	11.40%
2002	7.72%	11.94%	2.34%	8.64%	6.17%	15.96%
2003	7.13%	6.03%	2.20%	7.97%	6.17%	14.77%
2004	8.76%	10.78%	2.65%	8.82%	7.90%	15.54%

Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004



Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004

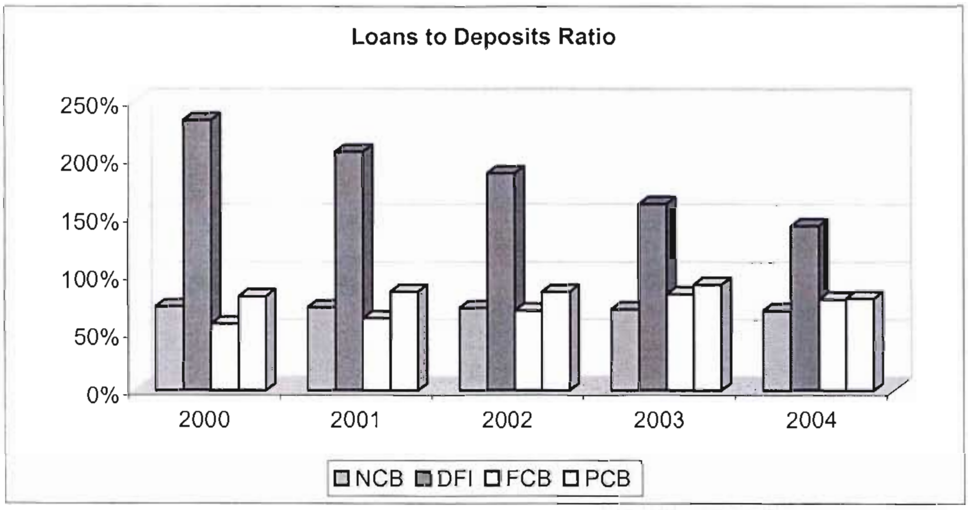
Majority portion of the loans are provided in Dhaka division, which is reflected by more than 50% share of loans each year in this region. This is because of the capital based activities of the commercial banks in Bangladesh. Among other divisions, Chittagong the port city has the second highest share in the loan portfolio of Bangladesh banking sector. Throughout last five year there is no negative growth in loans except 2002 in Dhaka division.

4.1.3.6 Loans to Deposits Ratio

Table 15: Loans to Deposits Ratio

Year	NCB	DFI	FCB	PCB	*Overall Loans to Deposits Ratio (%)*
2000	72.65%	233.51%	57.62%	81.64%	*83.92%*
2001	71.83%	206.25%	62.27%	85.75%	*84.12%*
2002	71.21%	187.31%	68.79%	85.41%	*83.28%*
2003	69.94%	161.02%	83.24%	91.57%	*79.84%*
2004	68.93%	142.10%	78.61%	79.65%	*78.60%*

Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004



Source: Scheduled Banks Statistics of Bangladesh Bank. 2000-2004

After comparing the uses of funds to the sources of funds we can identify which category of bank is managing its assets and liabilities better than others. Looking at the table it is clear that FCBs are the best managers in Assets and Liability management. As usual, NCBs are holding their funds and are moderate in using their funds. But the most interesting outcome we have witnessed in DFIs ratios. For the last five years they have provided loans more than their deposits.

4.2 Operating Performance

4.2.1 Profitability

4.2.1.1 Return on Assets (ROA) & Return on Equity (ROE)

Table 16: Return on Assets (ROA)

Percent %

Year	*Return on Assets (ROA)*			
	NCB	**DFI**	**FCB**	**PCB**
2000	0.1	-3.7	2.7	0.8
2001	0.1	0.7	2.8	1.1
2002	0.1	0.3	2.4	0.8
2003	0.1	0	2.6	0.7
2004	-0.1	-0.2	3.2	1.2

Source: Bangladesh Bank Annual Report 2004-2005

Table 17: Return on Equity (ROE)

Percent %

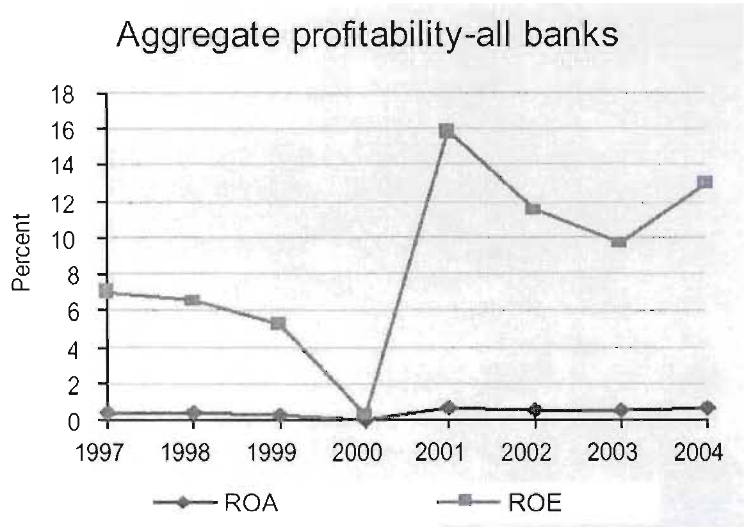
Year	*Return on Equity (ROE)*			
	NCB	**DFI**	**FCB**	**PCB**
2000	1.7	-68	27.3	17
2001	2.4	12.3	32.4	20.9
2002	4.2	5.8	21.5	13.6
2003	3	-0.6	20.4	11.4
2004	-5.3	-2.1	22.5	19.5

Source: Bangladesh Bank Annual Report 2004-2005

Strong earnings and profitability profile of a bank reflect its ability to support present and future operations. More specifically, this determines the capacity to absorb losses by building an adequate capital base, finance its expansion and pay adequate dividends to its shareholders. Although there are various measures of earning and profitability, the best and widely used indicator is returns on assets (ROA), which is supplemented by return on equity (ROE) and net interest margin (NIM).

Earnings as measured by return on assets (ROA) and return on equity (ROE) vary largely within the industry. Above tables show ROA and ROE by types of banks and the chart below shows the aggregate position of these two indicators for all banks. Analysis of these indicators reveals that the ROA of the NCBs has been very low and turned to negative in 2004, and that of the DFIs even worse. PCBs had an inconsistent trend and FCBs' return on assets ratio consistently declined from 4.8 percent in 1997 to 3.2 percent in 2004.

NCBs return on equity ratio rose from -1.1 percent in 1999 to 3.0 percent in 2003 but again declined to -5.3 percent in 2004. In case of DFIs, the ROE sharply rose from -68.01 percent in 2000 to 12.3 percent in 2001 and again declined to -0.6 percent in 2003 and -2.1 percent in 2004. The sharp rise in 2001 was due to booking of net profit amounting to Taka 1.0 billion in 2001 against net loss of Taka 5.16 billion in 2000 by the DFIs. The huge loss of the DFIs in 2000 was mainly due to making of provisions by debiting 'loss' in their books of accounts. *(Source: Bangladesh Bank Annual Report 2004-2005)*



Source: Bangladesh Bank Annual Report 2004-2005

4.2.1.2 Net Interest Income

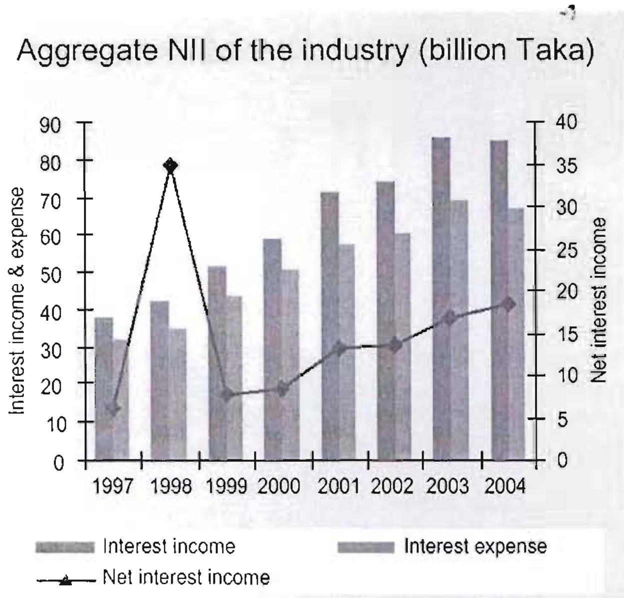
Table 18: Net Interest Income

Billion Taka

Year	NCB	DFI	FCB	PCB
2000	-1.2	1	2.5	6.1
2001	-1.8	2.7	3.3	9.2
2002	-1.5	1.4	3.4	10.2
2003	-0.3	1.3	3.6	12
2004	-1.1	1.8	4.2	13.7

Source: Bangladesh Bank Annual Report 2004-2005

Aggregate net interest income (NII) of the industry has been positive and consistently increased from Taka 6.3 billion in 1997 to Taka 18.3 billion in 2004. However, the NII of the NCBs sharply declined from Taka 3.1 billion in 1999 to a negative amount of Taka 1.2 billion in 2000. The trend continued and the NCBs' interest income in 2001 was less by Taka 1.8 billion than interest expenses, and in 2002 by Taka 1.5 billion, in 2003 by Taka 0.3 billion and in 2004 by Taka 1.1 billion. The DFIs had a negative NII in 1997 and 1999, which was reversed in 2000 to Taka 1.0 billion and thereafter was positive in 2001 (Taka 2.7 billion), 2002 (Taka 1.4 billion), 2003 (Taka 1.3 billion) and 2004 (Taka 1.8 billion).



Source: Bangladesh Bank Annual Report 2004-2005

Although the net interest income of the NCBs has been negative during the last five years, the overall industry NII shows a consistently upward trend. This is because the rate of increase in NII of the PCBs and FCBs has been very high over the period from 1997 through 2004. This trend indicates that the PCBs and the FCBs are charging interests at very high rates on their lending as compared to the interest they are paying to the depositors. *(Source: Bangladesh Bank Annual Report 2004-2005)*

4.2.2 Productivity

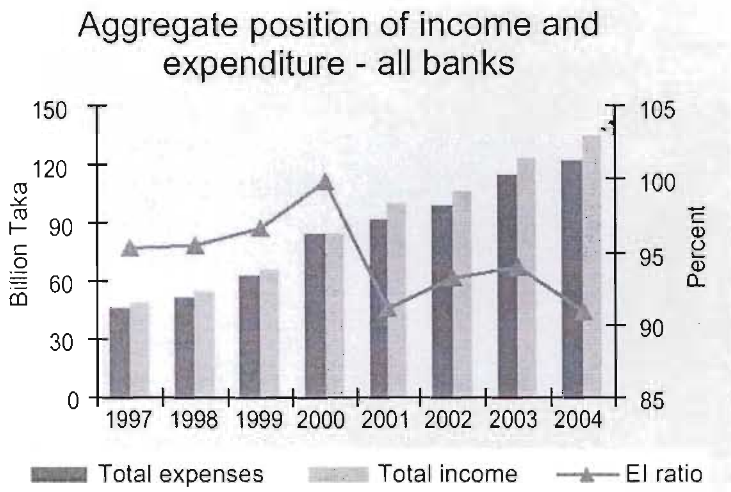
4.2.2.1 Overall Productivity

Table 19: Expenditure-Income Ratio

Percent %

Year	NCB	DFI	FCB	PCB
2000	99.4	175.3	77.7	90.8
2001	99	89.1	75.7	88.1
2002	98.5	95.9	78.3	91.9
2003	98.8	101.1	80.3	93.1
2004	102.3	104	76.3	87.1

Source: Bangladesh Bank Annual Report 2004-2005



Source: Bangladesh Bank Annual Report 2004-2005

It transpires from above table and chart that expenditure-income (EI) ratio of the DFIs was very high with 180.4 percent in 1998 and 175.3 percent in the year 2000. This was mainly because the DFIs made loan loss provisions by debiting 'loss' in their books. The position however improved after 2000 and the ratio came down to 89.1 percent and 95.9 percent in 2001 and 2002 respectively but again rose to 101.1 percent in 2003 and 104.0 in 2004 due to huge loss incurred by BKB (Bangladesh Krishi Bank). The EI ratio of the NCBs exceeded 100 percent in 1999 before falling to below 99 percent by end 2003 but again rose to 102.3 percent in 2004 due to loss incurred by Agrani Bank. Very high EI ratio of NCBs was mainly attributable to high administrative and overhead expenses, suspension of income against NPLs and making provision out of the profits made. *(Source: Bangladesh Bank Annual Report 2004-2005)*

4.2.2.2 Manpower Productivity

Table 20: Profit per Employee

Taka

Year	NCB	DFI	FCB	PCB
2000	3958.71	-331984	1722344	119334
2001	6235.63	49375.2	1636083	183298
2002	10000	10000	1790000	140000
2003	8200	-3654	1864200	133500
2004	-15600	-12600	2465200	270800

Source: Bangladesh Bank Annual Report 2000-2005

All the categories of banks except FCBs, experienced a declining trend in profit per employee because of increasing number of employees and economically dependent profit base.

Efficient management of human capital and a proper employment base is the reason behind FCBs' success in this case.

4.2.2.3 Manpower Expense

Table 21: Expense per Employee

Taka

Year	NCB	DFI	FCB	PCB
2002	160000	160000	2050000	390000
2003	200000	176600	1997300	413100
2004	182300	201600	1959500	448400

Source: Bangladesh Bank Annual Report 2002-2005

FCBs' high level of income per employee can be attributed by high level of expense per employee, which far ahead from the other categories of banks.

4.3 Regulatory Performance

4.3.1 Capital Adequacy Ratio (CAR)

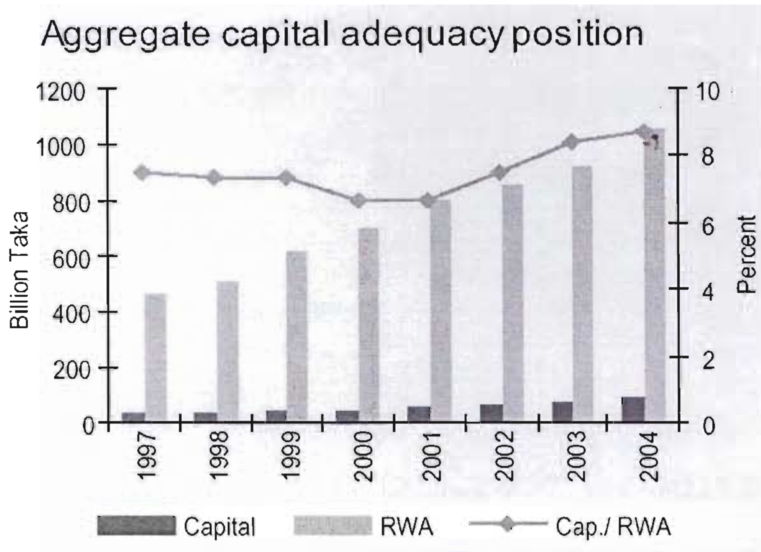
Table 22: Capital to risk weighted assets ratio by type of banks

Billion Taka

Year	NCB	DFI	FCB	PCB
2000	4.4	3.2	18.4	10.9
2001	4.2	3.9	16.8	9.9
2002	4.1	6.9	21.4	9.7
2003	4.3	7.7	22.9	10.5
2004	4.1	9.1	24.2	10.3

Source: Bangladesh Bank Annual Report 2004-2005

Capital adequacy focuses on the total position of bank capital and protects the depositors from the potential shocks of losses that a bank might incur. It helps absorbing major financial risks (like credit risk, market risk, foreign exchange risk, interest rate risk and risk involved in off-balance sheet operations). Banks in Bangladesh have to maintain a minimum Capital Adequacy Ratio (CAR) of not less than 9.00 percent of their risk-weighted assets (with at least 4.50 percent in core capital) or Taka 1.00 billion whichever is higher.



Source: Bangladesh Bank Annual Report 2004-2005

Above table shows that as on 31 December 2004 the DFIs, PCBs and FCBs maintained CAR of 9.1, 10.3 and 24.2 percent respectively. The 4 NCBs could not attain the required level. One of the DFIs and 5 PCBs failed to maintain required CAR. FCBs have the CAR much above the required standard at 24.2 percent but 2 of them maintained inadequate capital individually. Capital adequacy ratio of the banking sector showed an upward trend since 2000 and to 8.7 percent in 2004. In 2004 the ratio rose to 8.7 percent, the highest during the last 5 years. *(Source: Bangladesh Bank Annual Report 2004-2005)*

4.3.2 NPL to Total Loans

Discussed Earlier in the Loan Measures segment of this report

4.3.3 Statutory Liquidity Requirement (SLR)

The Statutory Liquidity Requirement (SLR) for the scheduled banks, excepting banks operating under the Islamic Shariah and the Development Financial Institutions, has been re-fixed at 16% from 20% on November 08, 2003 and then again it has been changes to 18% (with 13% CRR) in February 2006. The SLR for the Islamic banks remained unchanged at 10.0 percent. The specialized banks continued to remain exempt from the SLR.

4.3.4 Credit to Deposit Ratio

Discussed Earlier in the Loan Measures segment of this report

4.3.5 Provision Adequacy

Table 23: Comparative position of provision adequacy

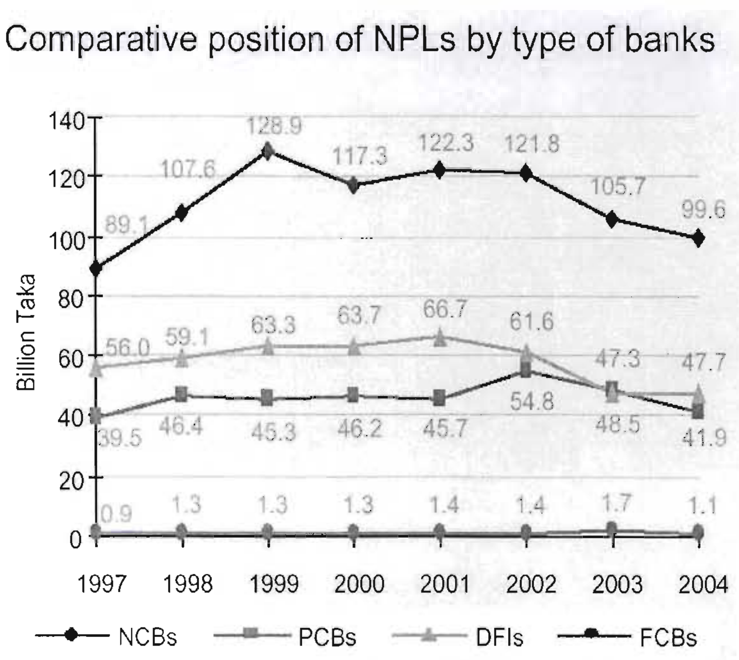
Year	Items	NCB	DFI	FCB	PCB
2001	Required provision	59.54	18.37	1.25	23.08
	Provision maintained	20.71	17.99	1.56	19.61
	Provision Maintenance ratio	34.78%	97.93%	124.80%	84.97%
2002	Required provision	61.5	17.1	1.2	27.9
	Provision maintained	18.9	17.3	1.6	22.8
	Provision Maintenance ratio	30.80%	101.20%	127.60%	81.90%
2003	Required provision	53.3	14.7	1.4	23.1
	Provision maintained	3.5	14.6	1.7	17.5
	Provision Maintenance ratio	6.60%	99.20%	125.20%	75.40%
2004	Required provision	50.7	13.5	1.3	22.3
	Provision maintained	3.4	12.4	1.6	18.5
	Provision Maintenance ratio	6.70%	91.90%	123.10%	83%

Source: Bangladesh Bank Annual Report 2000-2005

Table 24: Required provision and provision maintained - all banks

All Banks	2000	2001	2002	2003	2004
Amount of NPLs	228.5	236	238.6	203.2	187.3
Required provision	98.4	101.6	106.8	92.5	87.8
Provision maintained	58.1	61.4	59.6	37.3	35.9
Excess (+)/Shortfall (-)	-40.3	-40.2	-47.2	55.2	51.9
Provision Maintenance ratio	59.10%	60.50%	55.80%	40.30%	40.90%

Source: Bangladesh Bank Annual Report 2000-2005



Source: Bangladesh Bank Annual Report 2000-2005

Above table shows the aggregate amounts of NPLs of all banks, amounts of provision required to be maintained and the amounts actually provided by the banks from 2000 to 2004. Above table and Chart depict that in aggregate; the banks have been continuously failing to maintain the required level of provisions against their NPLs. During the years from 1997 through 2004, the banks could maintain 55.8 percent of the required provision in 2002; which declined thereafter to 40.9 percent in 2004. The main reason for the continuous shortfall in provision adequacy is the inability of the NCBs and some of the PCBs including those in problem bank category to make sufficient provisions due to inadequate profits and also transferred provision for write-off. Notably the FCBs are much better in that they have been able to make adequate provisions in the recent years. A comparative position as of end 2001 to 2004 is shown in the table. Although some individual PCBs could make adequate provisions, the aggregate position did not improve mainly because of the huge provision shortfall of the banks in "Problem Bank". *(Source: Bangladesh Bank Annual Report 2001-2005)*

5. Findings & Recommendations

5.1 Findings

From our above observation there is a clear demonstration of demand based banking activities and the activities are biased towards urban area where the possibility of making profit is more than that of rural areas.

The uses of technology in banks are very limited. Mainly FCBs are concentrating to increase the degree of technologies involvement in providing services and doing everyday activities. Some of the PCBs are also work on this area and get success. FCBs also have a better market orientation.

Scopes are there to improve management efficiency. There is a clear indication of poor asset-liability management as costly deposits were raised and exposure less risky loans has been increased. Reform in regulatory environment is also necessary to have more control over the poorly managed banks.

5.2 Recommendations

Bankers have to be innovative in providing services, which is very much necessary to introduce supply oriented services and that is a crucial factor of the aggregate improvement of the whole industry as well as the entire economy.

Financial decentralization is necessary to have access to rural funds and in this case Micro Finance Institution can be used as a role model.

Technological involvement in working procedure and delivering services should be increase to reduce man power expense and to improve efficiency.

Market oriented products must be designed and Fund management should be done concerning the mix and volume of funds very carefully.

6. Wrapping up

The aspiration with which this project paper has been prepared is to provide readers an overview regarding the performance of the overall banking sector of our country. I have tried to include relevant information and necessary analysis and evaluation of different aspects pertaining to the banking sector of Bangladesh over past periods (2000-2004). Within these periods, I have tried to cover the allocative, operational and regulatory performance of all the categories of banks. I have also identified several problems of Bangladesh Banking Sector according to which some necessary recommendations are also suggested to succor the most attractive financial sector of our country that is banking sector. Hope that this effort will be beneficiary to the readers who are willing to know past and present performance aspects of banking sector and have a foresight based on that.