UNITED INTERNATIONAL UNIVERSITY

Project Report on: **Performance Analysis of the Banking Industry of Bangladesh**

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Date: 27th May, 2018

Shakila Aziz

Assistant Professor,

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United International University (UIU)

Subject: Submission of a Project report.

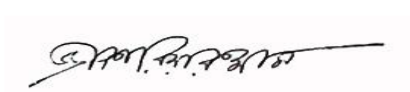
Dear Madam,

Firstly, I would like to thank you for approving this invaluable topic titled “Performance analysis of the Banking Industry of Bangladesh” This study has given me the opportunity to get a deeper knowledge about the banking industry of Bangladesh.

This is to inform you that, I have successfully completed my project report. I have put my best effort to make this report a successful one. It has been joyful & enlightening experience for me to work about this report. However this has been obviously a great source of learning for me to conduct similar types of studies in the future.

I would like to thank you for your encouragement which inspired me to work enthusiastically. I would like to mention that the report might some mistake due to typical errors. I hope that you would forgive me for inadvertent mistakes in the report.

Sincerely yours,



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First of all, I wish to express utmost gratitude to Almighty Allah for bestowing upon me the strength, intellect and perseverance required to complete this report. I am also thankful to my family because they have given so much inspiration and support to me that I am short of words in expressing my gratitude. In the completion of this Project report, I would like to thank a few people for their whole-hearted support and guidance.

I would like to convey my heartiest appreciation Mrs. Skila Aziz, Assistant Professor Department of school of Business and economics, United International University, for her valuable guidance and thoughtful advices. Without her help, it would not have been possible to complete this report.

Finally, I would like to acknowledge the contributions made by my friends and seniors, who helped me by sharing their experiences and encouraged me greatly.

Executive Summary

This report is based on financial performance analysis of banking industry of Bangladesh limited has been prepared to fulfill the partial requirement of BBA program. While preparing this report, I had a great opportunity to have an in depth knowledge of all the financial position through different analyzing tools and methods.The theoretical part of the report may consider about the Banking sector of our contry.

The Banking industry of Bangladesh is basically isolated into two divisions, for example, Specialized Banks (SBs) and Commercial Banks (CBs). The Specialized Banks are those bank that arrangement with particular divisions or industry of an economy. For example, Bangladesh Krishi Bank (BKB) just manages the agrarian part of the economy; Bangladesh Shilpa Bank (BSB) just manages the mechanical segment of the economy, etc.On the other hand, Commercial Banks are Scheduled Banks that are working in the nation under the guidelines and controls of the Central Bank. Commercial banks thusly can be gathered as Nationalized Commercial Banks (NCBs); Foreign Commercial Banks (FCBs) and Private Commercial Banks (PCBs) with three distinct portions, for example, first Generation Private Commercial Banks, 2nd Generation Private Commercial Banks, and third Generation Private Commercial Banks.The Bangladesh Bank (BB) Order created in 1972, authorized Bangladesh Bank (BB) as the central bank of the country. Bangladesh Bank Order 1972 and the Banking / Companies Act 1991 mainly guide the commercial banks in Bangladesh. Commercial Banks in Bangladesh are not allowed to do business other than just banking. Ordinary exercises include borrowing, raising or taking up of money, lending or advancing of money with or without security. They are additionally approved to issue letters of credit, trade in precious commodities and buying and selling of foreign goods excluding foreign bank notes. They are also additionally approved to trade in bills of exchange, promissory notes, coupons, drafts, debentures, certificates and other instruments approved by Bangladesh Bank (BB). Banking organizations are required to give safe vaults and approved to gather money and securities.

I state some major findings and recommendations base on the findings & analysis of the report. Next part is the conclusion of the report. At the end I included all the source of data and the list of journal, website by which this report completed successfully

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Chapter: 01

Introduction

1.1: Preamble:

Generally by the word “Bank” we can quickly understand that the financial institution deals with money. However, there are different assortment of banks like; Commercial Banks, Savings Banks, Co-operative Banks, Central Banks, Industrial Banks, Investment Banks, etc. However, when we adopt the term “Bank” without any adjunct, or restriction, it refers to the 'Commercial banks'. Commercial banks are the initial contributors to the economy of a country. So we can tell that Commercial banks are a profit-making organization and that Gathers the deposits from the surplus unit of the society and then lends the deposits collected to the deficit unit of the society. So the people of the nation and the government are undoubtedly dependent on the commercial banks as the financial intermediary. As banks are profit- earning field; they Gather deposit at the lowest probable cost and provide loans as well as advances at higher cost. The differences between two are the profit for them.

Banking is the backbone of a national economy. All sorts of economic and financial activities rotate round the axis of the bank. As the business produces wealth and commodities, so does the bank makes and controls currency advertise and in addition advances structure of a capital. Starting here of view, Banking is a specialized technical profession and it can be named as industry. Services to its customers are the products of banking industry besides being a central factor in promoting capital structure in the country. As all economic and fiscal activities rotate round this important ‘Industry”, the role of banking can desperately be over accent.
Since liberation, Bangladesh went through stable cycle of improvement In the Banking segment. The nationalization of Banks In the post freedom day was proposed to safe the Institutions and moreover the Interest of the financial specialist. Those taking care of the managing an account division have borne the weight of putting banks on trustworthy footings. In spite of every one of that was done, a few components of anomalies showed up. With the assertion of the role of the Central Bank, the Bangladesh Bank started adopting measures for putting banking institutions on right track Yet the dominance of public sector management of banks left some negative impact In the money market In particular and the economy In general The agility among the borrowers manipulates the banking sector as a whole. In effect, a default culture, among different impacts, showed up on the scene.

The opening of private and outside members to the Banking segment was planned to acquire alluring outcomes from managing an account. The authorization of private banks was designed to create competition among the banks and competition in the form of efficiency within and the productivity in enterprises funded by banks. Unfortunately, for the people, at large, banking sector part is yet to acquire the credit for effectiveness, believability and development.

"Performance Analysis of the banking industry of Bangladesh" is a report in which I have performed an analysis of the company by compare it with the others two bank and try to gather practical knowledge to deal with these below issue in an effective way if I get a chance to do make decision in bank operation.

1.2: Rationale of the report:

Because of the economic boom, globalization, and for the security issue the importance of banking company is rising and their operation activity is also rising. From this report I will have the capacity to know genuine circumstances of banking industry of Bangladesh by watching the connection of Multinational Banks of Bangladesh, Local Banks of Bangladesh and Islamic Banks Bangladesh with the ratio analysis and with their individual performance.

The possibility of monetary development in Bangladesh sooner rather than later will rely upon the pace of financial changes and the nature of macroeconomic administration. Quickening the rate of monetary development will require more elevated amounts of venture. This will fundamentally originate from private streams of outside direct speculation. This can be built up by improving the money related framework and proceeding with the procedure of financial deepening.

This report, financial performance analysis of banking industry of Bangladesh limited has been prepared to fulfill the partial requirement of BBA program. While preparing this report, I had a great opportunity to have an in depth knowledge of all the financial position through different analyzing tools and methods.

1.3: Significance of this report:

Education will be the best when hypothesis and practice mixes. Theoretical knowledge gets its flawlessness with reasonable application. What's more, the report is designed to overcome any issues between the Theoretical knowledge and genuine application. We all know that there is no alternative of practical knowledge which is more beneficial than theoretical aspects. The prime reason of this study is to become familiar with the practical business world and to attain practical knowledge about the overall banking company and corporate world, which is so much essential for each and every student to meet the extreme growing challenges in job market.

1.4: Scope of the report:

Learning knowledge becomes worthy and useful when it is implemented in the practical field. That is the reason learned individuals say, "Theoretical knowledge tests its flawlessness with application" or "Theoretical education must be upheld by genuine practice". The significance of useful information along with academic education is expanding step by step. For this the report has been introduced as an integral part of BBA degree.

I am very much delighted to have the opportunity to prepare this report. The collected data and information has been tabulated, processed and analyzed carefully and report has been prepared on the basis of Theoretical and Analytical Experiences by collecting data from the annual reports of the banks and by getting helps from the various websites.

This shorted duration is not adequate for experiment research world. The study would have been more informative and determined, if adequate time could have been utilized. However it is felt that the findings represented a partial view of Multinational Banks of Bangladesh, Local Banks of Bangladesh and Islamic Banks Bangladesh by observing the relation of their individual performance.

1.5: Objective of the study:

The main objective of the report is to analyze the financial performance of banking industry of Bangladesh in accordance with the knowledge acquired through the course “Financial Statement Analysis” and “Management of Financial institution”. The subsidiary objective is to acquire knowledge about how to evaluate banking or financial organization's in respect of its financial data through different financial analyzing techniques.

General objective:

The prime objective of the report is to fulfill the academic requirements of the project report.

Specific objective:

The following viewpoints can be listed as the specific objectives for practical orientation of the banking industry of Bangladesh.

- To calculate the financial ratios and identify the areas of concern.
- To understand the implications in analyzing business activities and financial statements.
- To identify and assess the present financial performance of Bangladeshi Banks.
- To identify the findings and raise possible recommendations for improving the performance of Bangladeshi Banks.

1.6: Methodology:

There are many ways or techniques to evaluate a firm's financial performance. Such as, Balance Sheet Analysis, Cash Flow Analysis, Ratio Analysis, Trend Analysis, analysis and so on. However, for doing the analysis of performance analysis of banking industry of Bangladesh I have chosen the ratio analysis. I had trying to compare through ratio analysis of five Multinational Banks of Bangladesh, nine Local Banks of Bangladesh and five Islamic Banks of Bangladesh and I had collected Five years data for doing this work. This task I finished by collecting the data from Published documents, Official files, relevant books, newspapers, journals and using many deferent websites, Official web sites of the Bank and Prior research reports.

1.7: Limitations:

The study covers only a specific region of Bangladesh and the study does not concentrate to all the part of the banking industry the tight time schedule was the only reason behind it. This Research Project work was prepared carefully with full concentration to avoid any kind of misinformation or mistakes. But still like all other research work this report may also have some limitations.

- Hard to calculate nineteen bank ratios in limited time period.
- Sometimes it was hard to find the same information to do any calculation of nineteen banks.
- Lack of opportunity to access to internal data.
- Unable to do a direct contact with any bank employee.
- The annual report and Web page are the main secondary sources of the information but this information was not enough to complete the report and it was not identified clear idea about this bank.

1.8: Literature Review

In this section of the study will introduce some relevant researches with concepts and their findings evolved by earlier researchers. It will also help to rationalize the study gap that identified for present study and to frame appropriate objectives for the proposed evaluation. The present study is to measure the financial performance of commercial banks in Bangladesh. There are two systematic approaches along with alternate methods such as non-parametric DEA and parametric Stochastic Frontier Approach available to measure the banks performance. First one is accounting approach that is used by Ncube which primarily based on the use of financial ratios and the other is econometric technique.

With respect to the Performances of Bangladeshi banking sector, foreign and national experts undertook number of studies.

Pandey (2006) expressed that the straightforward approach to evaluate the performance of a firm is to compare its present ratio with the past ratio. It gives an pointer of the course of progress and reflects whether the firm's financial performance has improved, deteriorated or remained constant over time.

Chowdhury and Ahmed (2009) watched that all the selected private commercial banks can accomplish a steady development of branches, employee, deposit, loans and advances, net income, earning per share during the time of 2002-2006. They show that the possibility of the private commercial banks in future.

Chowdhury (2002) watched that the banking industry of Bangladesh is a blended one containing nationalized, Private and foreign banks. Many efforts have been made to clarify the execution of these banks. Understanding the execution of the bank requires knowledge about the profitability and the connection between variables like market size, banks risk and banks market size with the profitability.

Chowdhury and Islam (2007) expressed that deposit and loan advances of nationalized commercial banks (NCBs) are less sensitive to interest changes than those of Specialized Banks (SBs). Along these lines, SBs ought not roll out unexpected improvement in loaning or store by following the NCBs. If NCBs change their loaning rate, their deposit or loan and advances will be influenced not exactly those of CBs. Besides, deposits of NCBs have higher volume and higher unpredictability than those of SBs. However SBs offer higher deposit rates and charge higher loaning rate than NCBs, which is the reason the financing cost spread of SBs was higher than that of NCBs.

Siddique and Islam (2001) brought up that the commercial banks, as a whole are performing great and adding to the financial advancement of the nation. The average profitability of all Bangladeshi Banks considered was 0.09% during 1980 to 1995 which implies that a benefit of Tk.0.09 was earned by using resources of Tk.100 in each part of profit; banking sector contributes the national economy as well as the individual organization. In spite of general development of the banking sector positive the execution of various classifications of banks were not similarly attractive.

Mujeri & Younus (2009) expressed that the higher the non interest income as a ratio of aggregate resources of banks the lower interest rate spread. Correspondingly piece of the overall industry deposit of a bank, statutory reserve requirement and NSD certificate interest rate affects the IRS. The examination in terms of banks group shows that IRS is fundamentally affected by operating cost and classified loan of state owned commercial bank and specialized banks while inflation, operating cost market share of deposit, statutory reserve requirement and taxes are important for the private commercial banks. On the other hand non interest income, inflation, market share and taxes matter for the foreign Commercial banks.

Khan (2008) expressed that bank is assessed in view of profit and loss as the similar path for different business. If the shareholders of the bank get more get more benefit then the bank is recognized as effective. Banks can achieve achievement if relevant risks are successfully controlled.

Van Horne & Wachowicz (2005) expressed that to assess a firm‟s financial condition and performance the financial investigator need to perform "checkups" on different parts of a firm's financial health. A tool frequently used these checkup is a financial ratio.

Pandey affirms that to think about the financial performance of a firm whether it is enhanced, deteriorated, or remains constant some time least demanding approach of that firm's present financial ratio with the past. But, Khan accentuates on profit that shareholders receive from the bank. If the profit along with effectively controlled the relevant risks is more, the bank is distinguished as successful.

Duncan & Elliott study discoveries demonstrate a positive relationship between customer satisfaction and financial performance measures for example net interest margin, ROA, and capital adequacy. Utilize ROA as execution intermediary to look at the financial performance measure of Jordanian and Pakistani's commercial banks individually. Be that as it may, *Tobinq's* model is used by *Siddiqui & Shoaib* as proxy of determining bank's performance. Their discoveries uncover profitability of the bank estimated by ROE and Tobin's Q influenced altogether by the extent of the bank.

Chowdhury & Ahmed while estimating financial performance of banking industry in Bangladesh watches unfaltering development rate branches, employee, deposit, loans and advances, net income, and EPS during the period of 2002 - 2006. A study has conducted by the European Central Bank in which the study favors financial ratios such as P/B ratio, ROA, and economic based performance rather than using ROE, to analyze performance in terms of bank’s capacity to generate sustainable profitability. The investigation ends up with far reaching conclusion that performance examination utilizes more forward-looking intermediaries while taking into account risk and profitability.

Junaidu et al (2014) analyze the effect of liquidity on the profitability of Nigerian banks for the period 2003-2012. They They locate a positive connection amongst **ROA** and cash and bank balances to total liabilities and return on equity **(ROE)** and cash and bank balances to total liabilities. They also locate no noteworthy effect amongst liquidity and profitability among the listed banking firms in Nigeria.

Wambu (2013) investigates the connection amongst profitability and liquidity of 44 commercial banks in Kenya during 2008-2012. He concludes that profitability and liquidity have a positive relationship and that liquidity is not a significant determinant of commercial bank’s profitability but one of the determinants of it.

Aloy (2012) investigations the tradeoff amongst liquidity and profitability of selected 31 listed manufacturing firms for 2007-2011 in Sri Lanka. His discoveries propose that there is no critical connection amongst liquidity and profitability among the listed manufacturing firms in Sri Lanka.

Munther et al. (2013) explore the effect of liquidity on Jordanian banks profitability through return on assets for the period 2005-2011. Their study revealed that there is significant impact of quick ratio on ROA at 5 percent level of significant.

Andrew et al. (2013) analyze the adequacy liquidity management and banking performance in Nigeria. The research was survey based for the year 2012. They find that there is a significant relationship between efficient liquidity management and banking performance and that efficient liquidity management enhances the soundness of banks.

Afia et al. (2014) analyze the liquidity-profitability relationships for the banking industry of Bangladesh by using yearly data from 2006-2011. They also find no significant relationship between liquidity and profitability in this industry (government bank, Islamic bank, private commercial bank, and multinational bank). They use only two variable liquidity (current ratio) and profitability (ROA), therefore their results suffer from omitted variable bias

The previously mentioned examinations clarify the connection between liquidity and profitability in the banking area in various nations. A large portion of these papers utilize just two variables, but there are numerous variables (bank specific and macroeconomic) that can influence the relationship. However, there is a dearth of studies examining the issue in the context of Bangladesh. To fill this gap I have undertaken this empirical study. In Bangladesh the current financial scam (Hall Mark and BASIC Bank) and huge loan default examples erodes the asset quality which impact on profit earnings of the banking sector. Besides, it not only impacts profit earnings but also banking sectors resilience and stability. Keeping up soundness and benefit of the banking sector are now the major concern for the policy makers I believe that the discoveries of the paper consider to the course of action maker.

Chapter: 02

Short Overview of Banks

2.1: History of Bank in Bangladesh

Bank framework was polished in Indian subcontinent by the Indian subcontinent traders; Goldsmith Moneylenders were the essential financiers. During the mughal period managing an account and credit business was enchanted rapidly.

In 1700 AD "Hindustan bank" was built up as the principal joint stock bank. In 1784 "Bengal bank" and in 1786 "general bank of India "were propelled. At that point both the banks absolved individually in 1793 and 1832.

During the early time of nineteenth century the three banks "Bank of Bombay", "Bank of Madras" and "Bank of Bengal" converged to "Imperial bank of India".”.

In 1947 after the partition of Bengal, bank business confronted an severe disaster as non-Muslim brokers moved to India. Keeping in mind the end goal to reconstruct the bank business State bank of Pakistan was built up as a national bank of Pakistan in 1948.

In 1971 Bangladesh ended up to free. After freedom 'Bangladesh bank' was mechanized with the benefits and liabilities of previous "State bank of Pakistan".

The rate of development and advancement of banking sector in the nation was to a great degree moderate until 1983 when the government permitted to set up private banks and began denationalization process. At first, the Uttara Bank around the same time and from there on, the Pubali Bank, and the Rupali Bank in 1986.There were no residential private commercial banks in Bangladesh until 1982 when the Arab-Bangladesh Banks (AB Bank) started private commercial banking in the nation. Five more commercial banks came up in 1983 and initiated a moderate growth in banking financial institutions.

The banking system is composed of four state-owned commercial banks, five specialized development banks, thirty private commercial Banks and nine foreign commercial banks.

2.2: Banking Industry of Bangladesh:

After freedom, the banks working in Bangladesh (with the exception of those fused abroad) were nationalized. These banks were blended and gathered into six Commercial banks. Of the aggregate six business banks, Pubali Bank Ltd. what's more, Uttara Bank Ltd. have in this manner been exchanged to the private division with impact from January 1985. Besides, at exhibit there are 51 scheduled banks working all over the nation. Out of these, 9 are state-possessed (including five specialized banks), 30 are private Commercial banks ((including four Islami banks) and the rest of the 12 are remote business banks (including one Islami bank).

The name of all the banks operating in Bangladesh and their year of incorporation are given in table

Name of the Banks operating in Bangladesh

Name of the Banks	Date of incorporation	Name of the Banks	Date of incorporation
Nationalized Commercial Banks		**Specialized Banks**	
Rupali Bank Ltd.	1972	RAKUB	1987
Janata Bank	1972	BSB	1972
Sonali Bank	1972	BKB	1972
Agrani Bank	1972	BSRS	1972
		BASIC	1988
Private Commercial Banks			
1st Generation Private Banks		**2nd Generation Private Banks**	
United Commercial Bank	1983	Al-Arafa Islami Bank Ltd.	1995
Uttara Bank Ltd.	1983	National Credit & Commerce	1993
National Bank Ltd.	1983	Prime Bank Ltd.	1995
Arab Bangladesh Bank Ltd.	1982	Eastern Bank Ltd.	1992
Islami Bank Bangladesh	1983	Dhaka Bank Ltd.	1995

IFIC Bank Ltd.	1983	Southeast Bank Ltd.	1995
Pubali Bank Ltd.	1984	Dutch-Bangla Bank Ltd.	1996
The City Bank Ltd.	1983	Social Investment Bank Ltd.	1995
Al-Baraka Bank Ltd.	1987		
3rd Generation Private Banks		**Foreign Commercial Banks**	
Bangladesh Commerce	1998	Standard Chartered	1905
One Bank Ltd.	1999	State Bank of India	1975
Exim Bank Ltd.	1999	Habib Bank Ltd.	1976
Standard Bank Ltd.	1999	American Express Bank Ltd.	1996
Mercantile Bank Ltd.	1999	Standard Chartered Bank	1948
Mutual Trust Bank Ltd.	1999	National Bank of Pakistan	1994
Premier Bank Ltd.	1999	Muslim Commercial Bank	1994
The Trust Bank Ltd.	1999	Shamil Islami Bank	1997
Jamuna Bank	2001	Credit Agricole Indosuez	1997
First Security Bank Ltd.	1999	CITI Bank, N.A.	1995
Bank Asia Ltd.	1999	HSBC	1996
BRAC Bank	2001	Mashreq	2001
Shahjalal Bank	2001	Hanvit Bank	1999

2.2.1: Foreign Commercial Banks

Standard Chartered Bank (SCB)

SCB has a background marked by over 150 years. The name "Standard" stems from the two unique banks from which it was established "Chartered Bank" of India, Australia and China and "Standard Bank" of British South Africa.

Chartered bank was built up in 1853 by a Royal Charter allowed by Queen Victoria of England. The primary individual behind the Chartered Bank was a Scot, James Wilson who had also started "The Economist" still one of the most eminent publications today. He predicted the benefits of financing the developing exchange joins with the zones in the East, where no other financial institution was available that time broadly.

Standard Chartered Bank (SCB) PLC is an international bank group that is consolidated in the UK with its Headquarters at 1 Alderman Covers Square, London. The group operations are mainly concentrated in Asia, Africa, and the Middle East and its task is divided under six areas: LTK, Europe, Middle East, South Asia, South East Asia and the USA. All around.

The Chartered Bank began working in Bangladesh in 1948, opening a branch in Chittagong. The branch was opened primarily to encourage the post-war restoration and extension of South and Southeast Asia. The Chartered Bank opened another branch in Dhaka in 1966, where it is still headquartered. After the merger of the Chartered Bank with the Standard Bank in 1969, the Standard Chartered Bank took up a program of extension. It progressively put resources into individuals; technology and premises as its business developed in connection with the nation's economy. In 1993, there was an authoritative re-organizing, which prompted a generous development of the Bank's business. Today the bank has in all-out four branches in Dhaka separated from the Chittagong branch, including a offshore branch at the Savar Export Processing Zone.

Citibank, N.A:

Citibank was formerly (1967-74) known as the First National City Corporation, American Holding Company incorporated in 1967, with the City Bank of New York, National Association (a bank following to 1812), as its principal subsidiary. The last's name changed progressively to First National city Bank in 1968 and to Citibank, N.A. (i.e., National Association), in 1976.

Citicorp was holding organization's mainstream and exchange name from its beginning, however, turned into the legitimate name just in 1974.

Citicorp is the parent organization of Citibank, which serves consumer and corporate customers in more than 100 nations around the globe. Its Global Consumer Business is the world's biggest issuer of credit card with 60 million bank cards and gives money related administrations through in excess of a thousand Citibank branches in more than 40 nations. Through its worldwide system of workplaces, Citibank also gives financing and exchange administrations to worldwide enterprises and nearby development organizations in developing markets.

AB Bank Limited

AB Bank Limited which is the first private sector bank was integrated in Bangladesh on 31st December 1981 as Arab Bangladesh Bank Limited and started its procedure with effect from April 12, 1982.

Since its inauguration 32 years ago, AB Bank is named as one of leading banks of the nation. Its continuous focus transfers the best efforts to make available the latest products and services with knowledge, passion, commitment and excellence. Being the market leader in the private banking industry of Bangladesh, AB Bank has thus been able to keep its consumers' and clients' trust by keeping its reliability and strong footage.

IFIC Bank Limited

International Finance Investment and Commerce Bank Limited (IFIC Bank) is a banking organization incorporated in the People's Republic of Bangladesh with limited liability. It was set up at the event of the Government in 1976 as a joint venture between the Government of Bangladesh and promotes in the private sectors with the target of working as a finance company. Inside the nation and setting up joint Venture banks/financial institutions aboard. IFIC was changed over into an undeniable business bank in 1983 when the Government permitted the banks in the private sector.

Dutch Bangla Bank Limited

Dutch-Bangla Bank was the first bank in Bangladesh to be completely computerized. The Electronic Banking Division was built up in 2002 to undertake rapid automation and bring modern banking services into this field. Full automation was finished in 2003 and thusly acquainted plastic money with the Bangladeshi masses. Dutch-Bangla Bank additionally works the country's biggest ATM armada and in the process definitely cut consumer costs and fees by 80%.

From the beginning, the focal point of the bank has been financing high-development producing businesses in Bangladesh. The reason being, that the assembling area trades Bangladeshi items around the world. Along these lines financing and focusing on this segment enables Bangladesh to accomplish the coveted development. Dutch-Bangla Bank different concentration is Corporate Social Responsibility (CSR). Despite the fact that CSR is currently a Clichy, Dutch-Bangla Bank is the pioneer in this part and named the commitment basically as 'social responsibility'. Because of its interest in this part, Dutch-Bangla Bank has turned out to be one of the biggest donors and the biggest bank benefactor in Bangladesh. The bank has won various global honors due to its interesting methodology as a socially conscious bank.

Bank Al Falah Limited

Bank Al Falah Limited was consolidated in June 21st, 1997 as an open constrained organization under the company Ordinance 1984. The bank started its tasks from November 1, 1997. The bank is engaged in commercial banking and related administrations as characterized in the Banking companies ordinance 1962.

Following a couple of years, the bank presented its new character of H.C.E.B after the privatization in 1997.The administration of the bank has executed systems and approaches so the bank would turn into a major player in the market.

By building the partnership with the Abu Dhabi Group the situation of the bank ended up more grounded which enabled the bank to put more in progressive innovation to expand its scope of items and administrations. This facilitates their commitment to a culture of innovation and seeks out synergies with clients and service providers to ensure uninterrupted services to its customers.

HSBC Bangladesh

HSBC Bangladesh began its task on 17 December 1996 in Dhaka with a dream to fulfill its clients with a great administration that mirrors its worldwide picture as the premier International Bank. In 1999 it has opened one Branch in Chittagong and two Booths in Gulshan and Motijheel. As of late, another Branch has begun working from 2 March 2003 in Dhanmondi. These workplaces were initiated by Mr. David G. Eldon Chairman HSBC Asia Pacific, amid his visit in February 1999 and March 2003. HSBC Bangladesh additionally has an Offshore Banking Unit, which gives banking services to remote organizations situated in the Export Processing Zones in Dhaka and Chittagong. HSBC Bangladesh additionally presented the ATM and phone saving money offices for personal Banking business.

2.2.2: Private Commercial Banks of Bangladesh

Prime Bank Limited

Prime Bank being Banking Company has been enrolled under the Company Act 1993 as a Public Limited Company on February 12, 1995 with its registered office at 5, Rajuk Avenue, Motijheel Commercial Area, Dhaka-1000, Bangladesh. Afterward, the workplace had been moved to Adamjee Court (annex building), Motijheel Commercial Area. It began task from April 17, 1995 with a commitment to play some social role in addition to normal banking. Its trademark is "Prime Bank Ltd. – a bank with a difference”. From the earliest starting point, the bank has embraced the strategy of broadening its business. To accomplish this target, the bank began Consumer Credit Scheme, Lease Financing, Hire Purchase, advances when all is said in done, Secured Overdrafts and so forth. Under the dynamic administration of the Chief Executive Officer, the bank earned benefit inside December 1995 and raised its save. The bank began task its business through four branches. Presently its branches remained at fifty two and by this year another two new branches will begin their activity.

Prime Bank has an approved capital of Taka 4,000 million and paid up capital of Taka 1,750 million. It is a full authorized planned business bank set up in the private part by a gathering of exceptionally effective business people in compatibility of the administration to change keeping money and budgetary administrations. The previous Governor of Bangladesh Bank Mr. Lutfar

Rahman Sarker was the primary Managing Director of this bank. At display, Managing Director is Mr. M Shahjahan Bhuiyan, who has a long involvement in residential and universal managing an account. Profoundly proficient individuals having wide involvement in household and worldwide keeping money are dealing with the bank. The bank has gained a noteworthy ground inside a brief span because of its extremely skillful governing body, dynamic administration and presentation of different client well disposed store and credit items. At show bank has 13 Directors, including the Chairman. The bank holds the main position in the CAMEL rating, distributed by Bangladesh Bank for the last sequential four years.

BRAC Bank Limited

BRAC Bank Limited is a planned business bank in Bangladesh. It set up in Bangladesh under the Banking Companies Act, 1991 and consolidated as a private restricted organization on 20 May 1999 under the Companies Act, 1994. BRAC Bank will be a unique organization in Bangladesh. The essential target of the Bank is to give a wide range of Banking business. At the earliest reference point, the Bank confronted some lawful commitment on the grounds that the High Court of Bangladesh suspended movement of the Bank and it could neglect to begin its tasks till 03 June 2001. In the end, the judgment of the High Court was put aside and rejected by the Appellate Division of the Supreme Court on 04 June 2001 and the Bank has begun its activities from July 04, 2001.

This association accomplished clients' certainty promptly after its foundation. Inside this brief timeframe, the bank has been effective in situating itself as dynamic and dynamic budgetary foundation in the nation. It is presently generally acclaimed by the business group, from little business visionary to enormous dealer and aggregates, including first-class corporate and remote speculators, for current and creative thoughts and money related arrangement. Accordingly, inside this brief timeframe, it has made an exceptional picture for itself and improved noteworthy answers for contributing in the saving money segment of the nation.

Mutual Trust Bank Ltd.

The Company was joined on September 29, 1999, under the Companies Act 1994 as an open organization restricted by shares for completing a wide range of Banking exercises with

Authorized Capital of Tk. 38,00,000,000 partitioned into 38,000,000 conventional offers of Tk.100 each. Directorate as operators of the investors screens the elements of the bank whether it is performed proficiently or not and furthermore takes care of the considerable number of issues.

The Company was likewise issued Certificate for Commencement of Business around the same time and was conceded permit on October 05, 1999 by Bangladesh Bank under the Banking Companies Act 1991 and began its Financing activities on October 24, 1999. As visualized in the Memorandum of Association and as authorized by Bangladesh Bank under the arrangements of the Banking Companies Act 1991, the Company began its financing activity and qualified for complete the accompanying sorts of the banking business.

Mercantile Bank Limited

Mercantile Bank Limited was incorporated in Bangladesh as a public limited company under the Bank Company Act, 1991, on May 20, 1999. In the wake of getting the permit from Bangladesh Bank to bear on banking business, the bank started its task on June 2, 1999, with an approved capital of Tk 800 million partitioned into 8 million common offers of Tk 100 each.

Mercantile Bank Ltd. is committed to provide high quality services to its constituents through various budgetary items and productive use of store and add to the development of GDP of the nation by financing trade and commerce, boosting export, helping industrialization, creating employment opportunities for the educated youth and encouraging micro-credit leading to poverty alleviation and improving the quality of life of the people and thereby contributing to the overall socio-economic improvement of the nation.

Bank Asia Limited

Presented by a gathering of prosperous entrepreneurs with recognized remaining in the general public, Bank Asia is a third era open constrained commercial bank. It has gotten the Certificate of Incorporation on September 28, 1999 and has come to task on November 27, 1999. The supervision of the Bank comprises a group driven by senior financiers with many years of involvement in national and global markets. The senior administration group is intensely bolstered by a gathering of experts a large number of whom have a colleague in the global market.

Bank Asia has set point of interest by securing the business activities of the Bank of Nova Scotia in Dhaka, first in the managing an account history of Bangladesh. It again rehashed the execution by procuring the Bangladesh activities of Muslim Commercial Bank Ltd. (MCB), a Pakistani bank.

Dhaka Bank Limited

Dhaka Bank was incorporated as a Public Limited Company on April 6, 1995 under Companies Act, 1994. The organization began to banking activities on July 5, 1995.

Dhaka Bank has genuinely valued and brought into accentuation the heritage and artifact of Dhaka and Bangladesh from Mughal station to present day city from the very year of its point of interest travel. The vast majority of its presentation, brand initiatives, publications, calendars, delivery channels, and financial manifestations bear Bank's commitment to this attachment. The Bank is broadly perceived today for its remarkable administration, effortlessness, closeness and cutting edge method for conveyance.

Jamuna Bank

Jamuna Bank Limited is a private business bank in Bangladesh enrolled under the Companies Act 1994. It was built up on June 3, 2001, jamuna Bank has 112 branches as of December, 2016. Its head office is situated at Hadi Mansion,2, Dilkusha C/A, Dhaka-1000, jamuna Bank Ltd is a third era private Commercial bank, was established by a group of local entrepreneurs.The bank, beside traditional, likewise gives Islamic managing an account through assigned branches, the Bank has ongoing web based saving money branches system to give web based saving money.

Eastern Bank Limited

Eastern Bank Limited is a Commercial bank headquartered in Dhaka, Bangladesh. It was built up in 1992, as a limited company with limited liability under the bank companies act of 1991. Its offer are recorded in Dhaka Stock Exchange and Chittagong Stock Exchange, the bank give items and administrations in retail keeping money, corporate fund, resource administration, value financier and security. It has 59 branches in Bangladesh and utilize around 3000 representatives, Eastern Bank Ltd. started in 16 August 1992. Preceding 1992 EBL worked as BCCI Bank Ltd, which changed into Eastern Bank Limited, EBL offers an extensive variety of vault, credit and card items. The clients are served through a system of 59 Branches,116 ATMs and 21 Kiosks countrywide, EBL has its essence in 11 noteworthy urban communities/towns in the nation including Dhaka, Chittagong, Sylhet, Khulna, Rajshahi Rangpur and Coxs Bazar and so forth. EBL has set up itself as a main private business bank in the nation with undisputed administration in Corporate Banking and a solid Consumer and SME development motors throughout the years. EBL's determination is to be the number one financial services provider, creating lasting value for its clientele, shareholders, and employee and above all for the community it functions in.

The City Bank Limited

City Bank is one of the most established private Commercial Banks working in Bangladesh. Begun their tasks in 1983, it is a best bank among the most seasoned five Commercial Banks in the nation. The Bank started its trip on 27th March 1983 by opening its first branch at Bangladesh Bank Avenue Branch in the Dhaka city. It was the visionary enterprise of around 13 local businessmen who overcame the huge vulnerabilities and risks with bravery and enthusiasm that made the institution possible.

2.2.3: Islamic Commercial Private Banks of Bangladesh

Islamic Bank Bangladesh Ltd

Islamic Bank Bangladesh Ltd. is the pioneer of Islamic banking in Bangladesh. It became incorporated on 13 March 1983 as a limited company under the Companies Act 1913. It has 36. 91% nearby and 63. 09% remote investors, up to Dec 2015, IBBL has 307 branches including 57 AD Branches & 3 Offshore Banking Units and also has 13,229 staffs. In addition to that that IBBL keeps up its own 497 ATM Booths, 33 IDM alongside 6,000 shared ATM organize the country over, IBBL activates around 27% of the country remittance. In 2015, it serves USD 3,903.21 million out of USD 15,316.75 million of total country remittance, all things considered, IBBL is the biggest private financing organization in Bangladesh. At the point when IBBL was set up, it was the primary bank in south-east asia to give saving money benefit in view of Shariah, the bank is recorded with both Dhaka Stock Exchange Ltd. what's more, Chittagong Stock Exchange Ltd. Islami Bank Bangladesh Limited is a sharia agreeable bank in Bangladesh. IBBL is a joint venture of the government of Bangladesh, 22 businessmen of Bangladesh, Islamic Development Bank, Islami Bank Bangladesh Limited is devoted itself towards the welfare of society. It has framed an establishment named Islami Bank Foundation with a reserve of Taka 38.00 million keeping in mind the end goal to direct social-welfare exercises on an expansive scale. From that point forward, Islami Bank Foundation is conveying the instruction, social welfare, and wellbeing and medicare exercises in the interest of Islami Bank Bangladesh Limited.

Shahjalal Islami Bank Limited

Shahjalal Islami Bank Limited (SJIBL) started its commercial operation as per guideline of Islamic Shariah on the tenth May 2001 under the Bank Companies Act, 1991. During most recent thirteen years SJIBL has separated its administration scope by opening new branches at various strategically imperative areas the nation over offering different administration items both investment & deposit. Islamic Banking, generally, isn't just interest free banking business, carries deal wise business item along these lines creating genuine pay and consequently boosting GDP of the economy.

EXIM Bank

Export Import Bank of Bangladesh Limited (EXIM Bank) is one of the main private Commercial banks in Bangladesh. The Bank came into task as a Commercial bank on 3 August 1999 according to principles and directions of Bangladesh Bank. From its foundation the bank was known as BEXIM Bank Limited. However because of lawful limitations, the bank was renamed as EXIM Bank, which remained for Export Import Bank of Bangladesh Limited.

As of May 2015 the bank has activities the nation over with 88 branches and 45 ATM stalls. By July 2004 the bank has moved the majority of its regular banking activities into Shariah based Islamic managing an account

As an full-fledged Islamic bank in Bangladesh, EXIM Bank extended all Islamic banking services including wide range of saving and investment products, foreign exchange and ancillary services with the support of sophisticated IT and professional management. The speculation arrangement of the bank includes expanded regions of business and industry sector.

Al Arafah Islami Bank Ltd:

Al-Arafah Islami Bank began its voyage on 18 June 1995 with the said in mind and to introduce a modern banking system based on Al-Quran and Sunnah. The opening function occurred on 27 September 1995. Gatherings of set up, committed and devout identities of Bangladesh are the designers and chiefs of the bank. Among them a prominent Islamic researcher, author, financial specialist and ex-administrator of Bangladesh Government MR. A. Z. M Shamsul Alam is the organizer and director of the bank. His nonstop motivation and dynamic initiative gave a lift to the bank in getting a toehold in the financial market of Bangladesh. A gathering of 20 noted and devoted Islamic identities of Bangladesh are the individual from Board of Director of the bank.

Al Arafah Islami Bank intends To be a pioneer in Islami Banking in Bangladesh and contribute essentially to the development of the national economy.

First Security Islami Bank Limited

First Security Islami Bank Limited (FSIBL) was consolidated in Bangladesh on 29 August 1999 as a banking institution under Companies Act 1994 to bear on banking business. It got authorization from Bangladesh Bank on 22 September 1999 to begin commence its business. The commercial banking activities exercises of the bank incorporate an extensive variety of administrations including accepting deposits, discounting bills, conducting money transfer and foreign exchange transactions, making loans, and performing other related services such as safe keeping, collections and issuing guarantees, acceptances and letter of credit.

First Security Islami Bank Limited (FSIBL) expects to wind up one of the main banks in Bangladesh by nature of activities in their banking sector.

Chapter: 03

Corporate Governance

3.1: Corporate governance

Corporate governance can be characterized as a combination of fairness, precision, accountability and sustainability of corporate behavior. Good Corporate governance is a key factor to accomplish the improved performance of an organization. It is fundamental element to protect the interest of shareholders. For continuous and sustainable growth of an organization, there is no alternative to effective Corporate Governance.

The advantageous result of corporate governance on various stakeholders ultimately is a reinforced economy, and thus good corporate governance is a tool for socio-economic development

The modern era of Corporate Social Responsibility (CSR) is the idea was developed in 1950s when it was all the more generally known as social duty. CSR has been characterized as "the coordination of business tasks and qualities whereby the interests of all stakeholders, including clients, employees, investors, and the environment are reflected in the organizations strategies and activities. By CSR rehearses an organization can improve communication with the community and other stakeholders, ensure accountability and transparency in its operation, improve internal decision making and cost saving, enhance corporate image, improve reputation and ability to enlarge market share and Enhancement of customer true worthiness, profitability and sustainable development

3.2: Corporate governance practices in the banking Sector internationally:

In the nineteenth century, state company laws improved the privileges of corporate sheets to oversee without consistent assent of investors in return for statutory advantages like evaluation rights, to make corporate administration more proficient. Since that time, and on the grounds that most huge traded on an open market enterprises in the corporations in the US are incorporated under corporate administration friendly Delaware law, and on the grounds that the US's riches has been progressively securitized into different corporate elements and foundations, the privileges of individual owners and shareholders have turned out to be increasingly derivative and dissipated. The concerns of shareholders over administration pay and stock losses periodically has led to more frequent calls for corporate governance reforms.

In the 20th century in the immediate aftermath of the Wall Street Crash of 1929 legal scholars such as Adolf Augustus Berle, Edwin Dodd, and Gardiner C. Means pondered on the changing role of the modern corporation in society. Berle and Means' monograph "The Modern Corporation and Private Property" (1932, Macmillan) continues to have a profound influence on the conception of corporate governance in scholarly debates today.

From the Chicago school of economics, Cease's "The Nature of the Firm" (1937) introduced the notion of transaction costs into the understanding of why firms are founded and how they continue to behave. Fifty years later, Michael Jensen's and Eugene Fama "The Separation of Ownership and Control" (1983, Journal of Law and Economics) firmly established agency theory as a way of understanding corporate governance: the firm is seen as a series of contracts. Agency theory's dominance was highlighted in a 1989 article by Kathleen Eisenhardt ("Agency theory: an assessment and review" Academy of Management Review).

US expansion after World War II through the emergence of multinational corporations saw the establishment of the managerial class. Accordingly, the following Harvard Business School management professors published influential monographs studying their prominence: Myles Mace (entrepreneurship), Alfred D. Chandler, Jr. (business history), Jay Lorsch (organizational behavior) and Elizabeth MacIver (organizational behavior). According to Lorsch and MacIver "many large corporations have dominant control over business affairs without sufficient accountability or monitoring by their board of directors."

Since the late 1970's, corporate governance has been the subject of significant debate in the U.S. furthermore, around the world. Bold, broad efforts to reform corporate governance have been driven, to some degree, by the requirements and wants of share owners to exercise their rights of corporate ownership and to increase the value of their shares therefore, wealth.. In the course of recent decades, corporate chief's obligations have extended incredibly past their conventional lawful duty of obligation of unwaveringness to the organization and its shareowners.

In the first half of the 1990s, the issue of corporate governance in the U.S. received considerable press attention due to the wave of CEO dismissals (e.g.: IBM, Kodak, Honeywell) by their boards. The California Public Employees' Retirement System (CalPERS) led a wave of institutional shareholder activism (something only very rarely seen before), as a way of ensuring that corporate value would not be destroyed by the now traditionally cozy relationships between the CEO and the board of directors (e.g., by the unrestrained issuance of stock options, not infrequently back dated).

In 1997, the East Asian Financial Crisis saw the economies of Indonesia, Malaysia ,South Korea, Thailand, and The Philippines severely affected by the exit of foreign capital after property assets collapsed. The lack of corporate governance mechanisms in these countries highlighted the weaknesses of the institutions in their economies.

In the early 2000s, the massive bankruptcies (and criminal malfeasance) of Enron and WorldCom, as well as lesser corporate debacles, such as Adelphia Arthur Andersen, AOL, Global Crossing, Tyco, Communications, led to increased shareholder and governmental interest in corporate governance.

3.2.1: Parties to corporate governance

Parties involved in corporate governance incorporate the administrative body (e.g. the board of directors, the Chief Executive Officer, management and shareholders). Other stakeholders who take part include employees, suppliers, customers, creditors, and the group on the large.

In corporations, the shareholder delegates decision rights to the chief to act in the principal’s best advantages. This partition of ownership from control suggests lost compelling control by shareholders over administrative choices. For the most part in light of this separation between the two gatherings, an arrangement of corporate governance controls is executed to help with adjusting the motivating forces of administrators to those of shareholders. With the basic addition in esteem property of financial specialists, there has been an open door for a reversal of the separation of ownership and control issues since possession isn't so diffuse.

A top managerial staff frequently assumes a key role in corporate governance. It is their obligation to underwrite the organization’s strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability of the organization to its proprietors and specialists.

The Company Secretary, known as a Corporate Secretary in the US and frequently alluded to as a Chartered Secretary if qualified by the Institute of Chartered Secretaries and Administrators (ICSA), is a high positioning proficient who is trained to uphold the highest standards of corporate governance, effective operations, compliance, successful activities, consistence and administration.

All parties to corporate governance have an interest, whether direct or indirect, in the viable execution of the association. Directors, workers, Chiefs, specialists and management receive salaries, advantages, benefits and reputation, while shareholders receive capital return. Customers/Clients receive goods and services; suppliers receive remuneration for their goods or services. Consequently these individuals provide value in the form of natural, human, social and other forms of capital.

A key factor is a person's decision to participate in an affiliation e.g. through giving financial capital and assume that they will get a decent amount of the authoritative returns. In the event that a few gatherings are accepting more than their reasonable return then members may decide to not keep continue sharing inciting legitimate crumple.

3.2.2: Principles

Key components of good corporate governance principles include honesty/trustworthiness, trust and integrity, openness, performance orientation, obligation and responsibility, mutual regard, and commitment to the organization.

Of significance is the way executives and management developing a model of governance that adjusts the estimations of the corporate members and then evaluates this model periodically for its effectiveness? In particular, senior administrators should behave genuinely, especially concerning actual or apparent conflicts of interest, morally and ethically, irreconcilable situations, and disclosure in financial reports.

Regularly acknowledged standards of corporate governance include:

- **Rights and equitable treatment of shareholders**: Organizations should regard the privileges of investors/shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to partake by and large gatherings.
- **Interests of other stakeholders**: Organizations ought to perceive that they have legal and other obligations to all legitimate stakeholders.
- **Role and duties of the board**: The board needs a scope of aptitudes and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. It should be of adequate size and have an appropriate level of commitment to fulfill its responsibilities and duties. There are issues about the proper blend of executive and non-executive directors.
- **Integrity and moral conduct**: Ethical and dependable basic leadership is not only important for public relations, but it is also a vital component in risk management and avoiding lawsuits. Organizations ought to build up implicit rules for their chiefs, directors and executives that promote ethical and responsible decision making. It is vital to understand, though, that reliance by a company on the integrity and ethics of individuals is bound to eventual failure. Along these lines, many organizations establish Compliance and Ethics Programs to minimize the risk that the firm strides outside of moral and lawful limits.
- **Disclosure**, **straightforwardness and transparency**: Organizations should clear up and make publicly known the parts and duties of board and management to provide shareholders with a level of responsibility. They ought to also implement procedures to independently verify and safeguard the integrity of the organization's financial detailing. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access clear, true data.

Issues involving corporate governance principles include:

- internal controls and internal auditors/ evaluators
- the independence of the entity’s external auditors and the quality of their audits

- oversight and administration of risk
- oversight of the arrangement of the entity's financial statements
- review of the remuneration game plans for the CEO and other senior administrators
- the resources made available to directors in carrying out their obligations
- the manner by which people are nominated for positions on the board
- dividend policy/arrangement

3.2.3: Systemic problems of corporate governance

- Demand for information: A hindrance to investors/shareholders utilizing great data/information is the cost of processing it, especially to a small shareholder. The customary response to this issue is the efficient market hypothesis (in finance, the efficient market hypothesis (EMH) asserts that financial markets are efficient), which suggests that the small shareholder will free ride on the judgments of larger professional investors/ expert speculators
- Monitoring costs: keeping in mind the end goal to impact the directors, the shareholders must consolidate with others to form a significant voting group which can pose a real threat of carrying resolutions or appointing directors at a general gathering.
- Supply of accounting information: Financial accounts shape a urgent connection in empowering providers of finance to monitor directors. Defects in the financial reporting process will cause imperfections in the effectiveness of corporate governance. This should, ideally, be corrected by the working of the outside examining process..

3.2.4: Mechanisms and controls

Corporate governance mechanisms and controls are intended to lessen the wasteful aspects that arise from moral hazard and adverse selection. For example, to monitor managers' behavior, an independent third party (the external auditor) attests the accuracy of information provided by management to investors. A perfect control framework should regulate both motivation and ability.

3.2.4.1: Internal corporate governance controls

Inward corporate governance controls monitor activities and then take corrective action to achieve hierarchical objectives. Examples include:

- **Monitoring by the top managerial staff**: The governing body, with its lawful expert to hire, fire and compensate top management, safeguards invested capital. Regular board Consistent executive gatherings enable potential issues, discussed and avoided. While non-official chiefs are believed to be more independent, they may not generally bring in more effective corporate governance and may not increase performance. Different board structures are ideal for various firms. Also the capacity of the board to monitor the firm's executives is a function of its access to information. Official chiefs/ Executive directors possess superior knowledge of the decision-making process and therefore evaluate top management on the basis of the quality of its decisions that lead to financial performance results. It could be contended, in this manner, that executive directors look beyond the financial criteria.
- **Internal control procedures and internal auditors**: Internal control techniques are arrangements executed by an entity's top managerial staff, audit committee, management, and other personnel to provide reasonable assurance of the entity achieving its objectives related to reliable financial reporting, operating efficiency, working effectiveness and compliance with laws and regulations. Internal auditors are personnel within an organization who test the design and implementation of the entity's internal control procedures and the dependability of its money related detailing.
- **Balance of power**: The most straightforward balance of power is very common; require that the President be an alternate individual from the Treasurer. This utilization of partition of power is further developed in companies where separate divisions check and balance each other's actions. One group may propose extensive authoritative changes, another group review and can veto the changes, and a third group check that the interests of people (clients, investors, workers) outside the three groups are being met.

- **Remuneration:** Performance-based compensation is intended to relate some extent of pay to singular execution. It might be as in the form of cash or non-cash payments for example shares and share options, superannuation or other benefits. Such impetus plans, however, are reactive in the sense that they provide no mechanism for preventing mistakes or opportunistic behavior, and can elicit myopic behavior.

3.2.4.2: External corporate governance controls

External corporate governance controls include the controls external partners practice over the organizations Illustrations include

- Competition
- debt agreements
- demand for and appraisal of performance information (particularly financial statements)
- government controls
- managerial labor market
- media pressure
- takeovers

3.3: Corporate governance practices in the banking sector of Bangladesh

Corporate governance is the is the arrangement of procedures, customs, policies, laws, and institutions affecting the way a partnership is coordinated, administered or controlled. Corporate administration also incorporates the connections among the numerous stakeholders included and the objectives for which the corporation is governed. The chief partners are the investors, shareholders, board of directors, management committee, executive committee and other stakeholders including labor or representatives, employees, clients, customers, creditors (e.g., bond holders, banks, investors), regulators, suppliers, and the community at large. "Corporate governance is an inside framework including arrangements, processes and people, which serve the requirements of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity". Sound corporate governance is dependent on external marketplace commitment and legislation, along with a healthy board culture which shields approaches and forms/processes.

Banks plays an indispensable part in financial advancement of our country. It is critical to perceive how well our financial sector is functioning. Particularly, developing economy like Bangladesh, where there is immature capital market, highly depends on the intermediary role of financial institutions for channeling funds to the deserving one out of a productive way. Consequently, analysts, academicians and policy actors put forth sincere effort to recognize the factors that influence the impact the activities of monetary foundations and, subsequently, commitments of the financial institutions in the economy of the country. What's more, among all the standard variables, corporate governance is one of the factors that have gained considerable attention recently due to several contemporary issues regarding governance issues of the financial sector of the nation and, hence, it has become imperative to measure the impact of it on banks' performances. In general, it is important to have a transparent and healthy banking system for the growth and development of the economy. For this reason, this sector needs more supervision. Because of the global financial crisis, experts realized that bank needs better supervision and good governance. Sound corporate governance of banks can also lower the investment risk of investors and helps to reduce the cost of financing, which will eventually present an enduring stream of outside venture into the nation

3.3.1: Problems of corporate governance of Bangladeshi banking sector:

- **Borrower Selection Criteria**: Some banks can't choose the right people or organizations for lending. On the off chance that the choice of borrower ends up broken then the entire loaning procedure will fall flat. The people or associations ought to be chosen who are financially as well as mentally fit for the borrowing. On the off chance If the banks select the fraud people whose intentions is not to repay the loan then the bank will face higher classified loans thus their banking operations be collapsed. So in case of selection of right borrower, the bank should be knowledgeable or aware of the information of the borrower that is appropriate KYC (Know Your Customer).

- **Political Influence:** Though the authorities educated that there is no political influence in the lending decision making process, there is a suspect of having intense political weight in this issue. Politically biased decisions lead the advances towards being default and the banking sector towards a defenseless position. The misrepresentation borrowers are exceptionally clever and they make webs for the people who are associated in lending as well as auditing and reporting process. Politically uncovered people make weight on the banking sector for themselves as well as for their small fry For instance, in Basic Bank confirm were discovered that the investment department sent proposal to Head Office as negative but the higher authority made that positive and approved the loan in favor of the client. Investment department and branch manager assumed that the client could be detrimental for the bank and made the proposition negative. Yet, due to having join with high authorities and belongingness to a political party, the client became successful to turn the table on him. In this way, political impact or pressure has an important impact on the banking sector of the Bangladesh.
- **Management Influence:** Like political impact, banks' administration has effect on the loaning procedure. The administration impact in the credit decision making process and the consequences is higher classified and default loans. The higher administration, for example, Chairman, board of directors, Managing Director, and other high officials has an important critical order on the loaning procedure. They some of the time indicate nepotism to their near and dear ones. Once in a while they arrange and instruct the branch managers to prepare lucrative proposal on behalf of their chosen clients though their loan availing ability is not much lucrative for the bank. At times the administration support advances approves loans at a special rate; even with shortage of documents; and not having enough collateral as security.
- **Involvement of Bangladesh Bank Officials:** In a casual talk with some high authorities of various commercial banks as well as with some Bangladesh Bank authorities, it has been uncovered that some untrustworthy authorities of Bangladesh Bank are also associated in the forgery. Defiled and exploitative authorities take bribe and help to conceal sensitive information of client by not properly analysis the data given by

different commercial banks. Sometimes they purposefully neglect blame done by commercial banks during auditing.

- **Unaware of Bangladesh Bank Circulars:** Bangladesh Bank provides circular to the commercial banks time to time for their smooth operation and own safety and security. All commercial bank must need to take after those brochures. It was discovered that occasionally authorities are unaware of those circulars. This may lead the bank towards operational and additionally reputational risks.
- **Incomplete Sanction Advice:** Sometimes the credit department sends proposal with incomplete information of the borrower to the Head Office in view of that HO also issue incomplete inadequate authorize exhortation for the customer.
- **Obligation of Margin in FEX:** In foreign exchange, there is a commitment of having least 10% edge of the aggregate Letter of Credit (LC) sum. If the customer is obscure to the bank then International Journal of Managing Value and Supply Chains (IJMVSC) Vol. 6, No. 3, September 2015 26 cash margin should be 100%. But the client makes arrangement with the branch officials and keeps the margin to 5% or here and there they don't keep the money edge by any means. This is an entire infringement of corporate governance of the bank. In case of LC, banks deal with papers not goods. At the point when the archives of LC come to the bank, it must pay the LC amount up to the exporter because of the client/importer. If the customer does not reimburse the amount which was paid to the exporter, the bank then sells the mortgaged property. In the event that the collateral is not enough to secure the loan, the bank cannot be able to recover the full amount which was contributed.
- **Providing Extra Benefits to the Client:** Another terrible practice was found in the branches is providing extra benefit to the clients. Here the importance of additional advantage can be defined in different ways. For instance, a customer's collateral may not enough to get certain amount of loan but getting more than that. In case of foreign exchange, a minimum cash margin is a must but the clients are given extra facility that they do not need to deposit cash prior to the FX transactions. Due to having great association with bank authorities, some of the time clients ask for deferral of submitting required documents for conducting a specific transaction which is also availing extra benefit. The problem arises when some crucial documents may miss which were

mandatory for that transaction. The issue emerges when some vital archives was committed, the banks stay unfit to indicate legitimate Documents.. A Bangladesh Bank official educated that the classified loan of a certain branch of Prime Bank Ltd was only 2% to 3% last year, but for providing extra benefit to the client the classified loan reached to 82% to 83% when that customer fallen.

- **Wrong Information Provided by Head Office:** Bangladesh Bank is the central bank and watchman/guardian of every commercial bank in Bangladesh. So the commercial banks need to submit diverse data to Bangladesh Bank through different statements. Based on those information gave by various banks, the central bank takes different decisions and makes policy. Branch offices of each bank give articulations to their particular Head Office. Those announcements are at finally submitted to Bangladesh Bank. Sometimes branches or even Head Offices temper the real data. A Bangladesh Bank official educated that when he was doing review in a branch of Prime Bank, he found a client's loan was classified by the branch office but not by the HO. Such practice is unscrupulous and infringement of the rules and regulations of the corporate governance of the bank.
- **Insufficient Personal Guarantee:** Personal assurance is a mainstream term in the banking sector. For taking credit from banks ensure is a must whether it is personal guarantee or collateral. If the loan amount is lower, at that point the personal guarantee can be taken as the mode of security. However, in the event that the sum is higher, then personal guarantee is insufficient and further collateral required. If there should be an occurrence of recuperation, personal guarantee is becoming risky. Absence of Proper Information about Importer and Exporter: Hallmark and Bismillah Group financial scam took place because the bank had not enough and proper information about the importer and exporter. In the event of Hallmark, the arrangement of LC was arranged among the different wings of the Hallmark itself. They didn't exchange or produce the goods but they submitted the papers to the bank for the payment and the bank made payment of the LC without verification. The Bismillah Group opened its wing in abroad and made the same type of fraud with the bank. So it is necessary for the banks to have complete and proper information regarding the importer as well as the exporter before doing any sort of dealings with them.

- **Investment in Risky Project:** The branches have business focus to top off each year and now-a- days the opposition/competitors has expanded so much. To survive in the competitive market, banks try to find out different projects where they can invest and get a sound return. Where there is great return there is there is also high risk. Investing in high risk projects could make the banks profitable as well as looser sometimes. Another terrible routine with regards of competition is hunting of clients at any cost. This practice makes the banks to discover customers desperately. For instance, a man is capable of getting loan from a bank of amount of taka 50.00 lac as his collateral valuation can support that International Journal of Managing Value and Supply Chains (IJMVSC) Vol. 6, No. 3, September 2015, 27 amount maximum but another bank could snatched away that customer by offering him more sum. This is exceptionally unsafe and terrible practice by the banks. If that client collapses or makes any fraud with the bank, then the bank will be unable to recover its money by offering that collateral.
- **Monitoring and Supervising Borrower:** A bank's primary profit originate from loans and advances. So the determination of customers ought to be done more cautiously by the bank. If the clients' businesses are profitable then they can repay the loan amount to the bank and the bank can also make profit. So it is the duty of the bank to dispense loan to the clients but also to monitor and supervise how they use the amount and doing their business. This will also prevent subsidize redirection.
- **Fund Diversion:** Fund preoccupation is one of the significant issues in Bangladeshi banking sector which becomes more crucial now-a-days. The fundamental contrasts amongst Islamic and conventional banking system are the mode of disbursement of money. Conventional/Traditional banks dispense the money directly to the clients account and the clients can do anything with the money they need. They took loan from bank for working together but if they spend money in any unproductive sector for example invest in share market; buy cars, purchase land, and spend without any goal then the fund becomes diverted. Fund diversion makes the customers unfit to make enough return to repay the loan thus the loan fall ultimately. Along these lines, strong monitoring and supervision is a must to prevent fund diversion. Then again, Islamic banks buy goods for the clients rather disburse money to the customers specifically. So, a little chance of fund diversion exists here. But monitoring and supervising is additionally required there.

- **Corrupted Bank Officials:** Corrupted investors are peaceful in charge of the financial fraud or scams. They make linkage with the customers and related with these fake/fraudulent activities. As they know the banking rules and regulations very well and they find the way to do fraud by demonstrating their thumbs to the bank.
- **Fake Mortgage:** Mortgaged property which is utilized to secure the credit in case of default should be evaluated properly. Sometimes the the customers make courses of action of the fake property by making linkage with land officials, legal advisor of the banks and sometimes with the bank officials. Audit team is also responsible because they sometimes overlook such activities intentionally or accidentally. Hallmark influenced this type of fraud with Sonali Bank. They mortgaged land as collateral but the land does not exist or the proprietor isn't the Hallmark Group.
- **Lack of Proper Documentation:** Proper documentation is a pre-requisite of every transaction or each exchange with the clients. If there is any lack in documentation then the problem might raise during the time of recovery. If the bank becomes unable to show proper documents then it will not get any legal protection while recovering default loans. One instance can be shown that Basic Bank provided loan against fixed deposit which is 100% secured but in the meantime the client withdrawn the fixed deposit from the bank without settling the credit.
- **Insufficient Audit:** Proper auditing is the fundamental tool that can eradicate all the fraud and scams from the banks. But the audit process cannot be made properly for various reasons. People who are auditing may remain under management pressure or they may be corrupted as well. In some banks, only one audit takes place in a year whereas minimum two audits are obligatory according to rules

Chapter: 04

Ratio Analysis

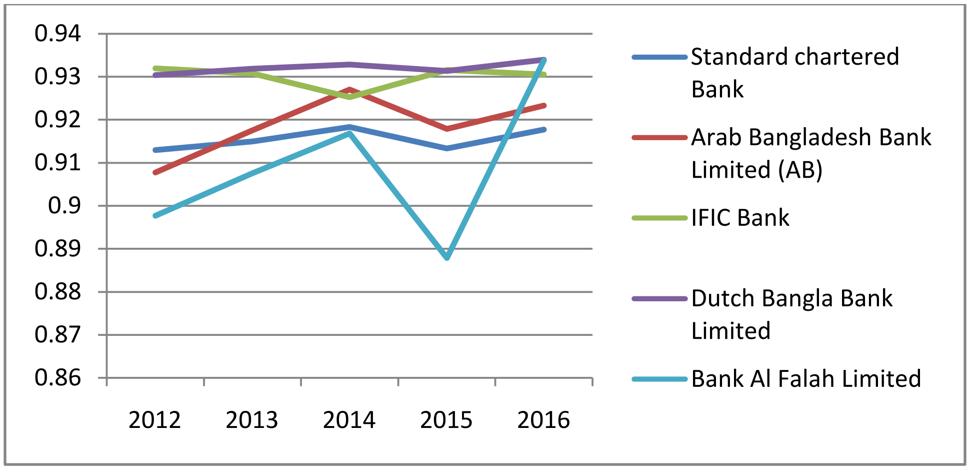
Ratio analysis is a diagnostic tool that helps to identify problem areas and opportunities within a company. Ratio analysis is very important for every business, because by calculating ratio analysis we can understand the business position, business strength and weakness. By knowing this information, management can takes its necessary steps to organize their goal. The samples of ratio analysis of some Bangladeshi banks are given as follows:

4.1: Foreign Commercial Banks

To understand the business position, business strength and weakness of the foreign commercial banks in Bangladesh I took help form the ratio analysis calculation. I calculate and interpreted the Debt ratio, Debt to Equity ratio, timed interest earned ratio, Return on asset, Return on equity, Financial leverage, Ratio of interest expense to interest income, and Earning per share ratio of Standard chartered Bank Arab Bangladesh Bank, IFIC Bank, Dutch Bangla Bank,and Bank Al Falah Which are as follows:

4.1.1: Debt ratio: (Total liability/Total assets):

Debt ratio: (Total liability/Total assets)					
	2012	2013	2014	2015	2016
Standard chartered Bank	0.912911	0.914927	0.91829	0.91332	0.91771
Arab Bangladesh Bank Limited (AB)	0.907688	0.917554	0.92699	0.91784	0.92328
IFIC Bank	0.931897	0.930693	0.9252	0.93156	0.93048
Dutch Bangla Bank Limited	0.930384	0.93186	0.93279	0.93135	0.93391
Bank Al Falah Limited	0.907688	0.917554	0.92699	0.91784	0.92328

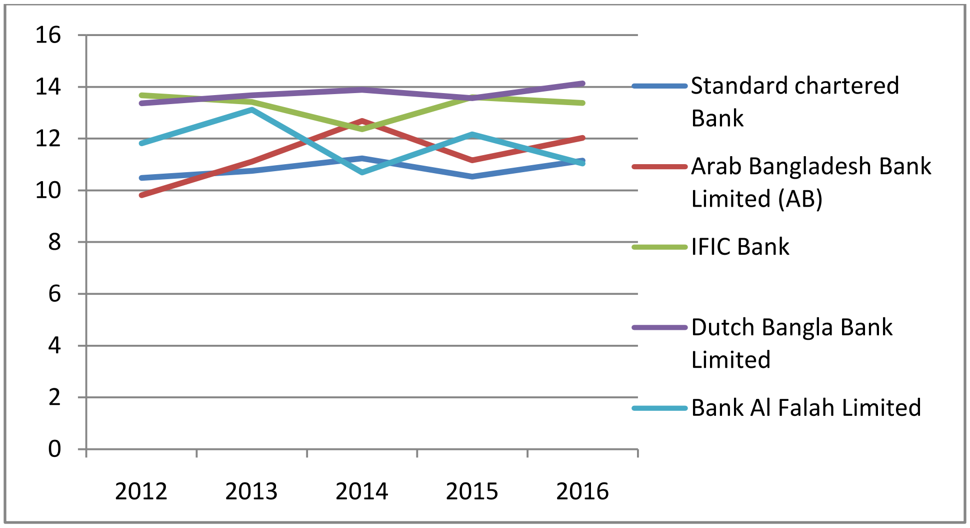


Interpretation:

Debt ratio means the ratio of total debt to total assets. A debt ratio greater than 1 Means Company has more debt than assets and lower than 1 means they has more assets to meet up the debt. Where these five Banks of Bangladesh had debt ratio comparatively less than 1 which means their debt portions in the respective years was capable to meet up but they are very close to 1, as we see the chart bank AL Falah LTD was in a better position compare with other five foreign banks.

4.1.2: Debt to equity ratio: (Total liability/Shareholders equity):

Debt to equity ratio: (Total liability/Shareholders equity)					
	2012	2013	2014	2015	2016
Standard chartered Bank	10.4826	10.7547	11.2384	10.537	11.1525
Arab Bangladesh Bank Limited (AB)	9.820621	11.11902	12.69063	11.1709	12.03882
IFIC Bank	13.68364	13.42863	12.3684	13.6105	13.3834
Dutch Bangla Bank Limited	13.36442	13.6766	13.8782	13.5668	14.1303
Bank Al Falah Limited	9.820621	11.11902	12.6906	11.1709	12.0388

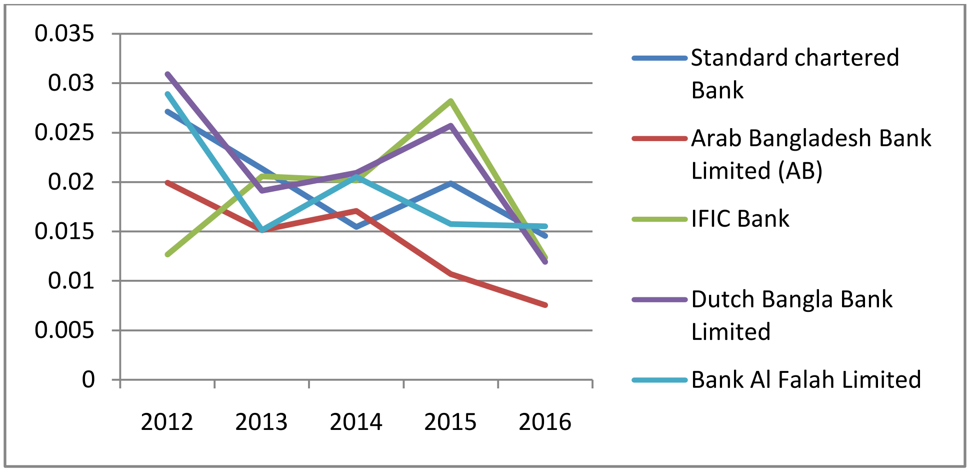


Interpretation:

Debt to equity ratio is an indicating the relative proportion of the Shareholders equity and debt used to finance a company's assets. A high debt to equity ratio generally means that a company has been more aggressive in financing its assets by debt. From above result we see that the Standard chartered Bank was in a lower D/E ratio compare with other banks. Which means they were financed more assets with debts and leads them with more volatile earnings as a result of additional interest expense. Where Dutch bangle bank ltd has a high debt to equity ratio, it generally means that a company has been more aggressive in financing its assets by debt.

4.1.3: Time interest earned ratio: (EBIT/Total assets):

Time interest earned ratio: (EBIT/Total assets)					
	2012	2013	2014	2015	2016
Standard chartered Bank	0.027109	0.021348	0.01547	0.01986	0.01456
Arab Bangladesh Bank Limited (AB)	0.01992	0.015129	0.01706	0.0107	0.00755
IFIC Bank	0.01266	0.02058	0.02015	0.02819	0.01233
Dutch Bangla Bank Limited	0.030895	0.01912	0.02092	0.02568	0.01192
Bank Al Falah Limited	0.01992	0.015129	0.01706	0.0107	0.00755

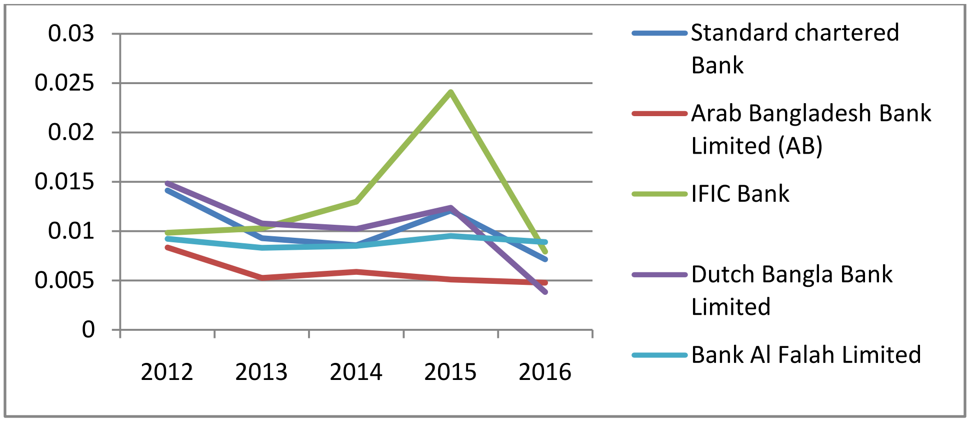


Interpretation:

Interest coverage ratio or TIE ratio means how much a company has the ability to honor its debt payments. Here we can say that obviously the higher ratio considered more favorable than smaller ratios. Here IFIC bank was more capable in 2015, to 2016 to meet up the interest with it's before tax income. Dutch bangla bank was capable in 2012 to honor its debt payment. Where Arab Bangladesh bank was lead in not a good condition to honor their debt payments.

4.1.4: Return on Asset (ROA): (Net income/ Total Asset):

Return on Asset (ROA) : (Net income/ Total Asset)					
	2012	2013	2014	2015	2016
Standard chartered Bank	0.014107	0.009259	0.00854	0.01206	0.00712
Arab Bangladesh Bank Limited (AB)	0.008329	0.005237	0.00585	0.00508	0.00476
IFIC Bank	0.009816	0.010277	0.01296	0.02408	0.0079
Dutch Bangla Bank Limited	0.014842	0.01078	0.01022	0.01238	0.00384
Bank Al Falah Limited	0.0092	0.0083	0.0085	0.0095	0.0089

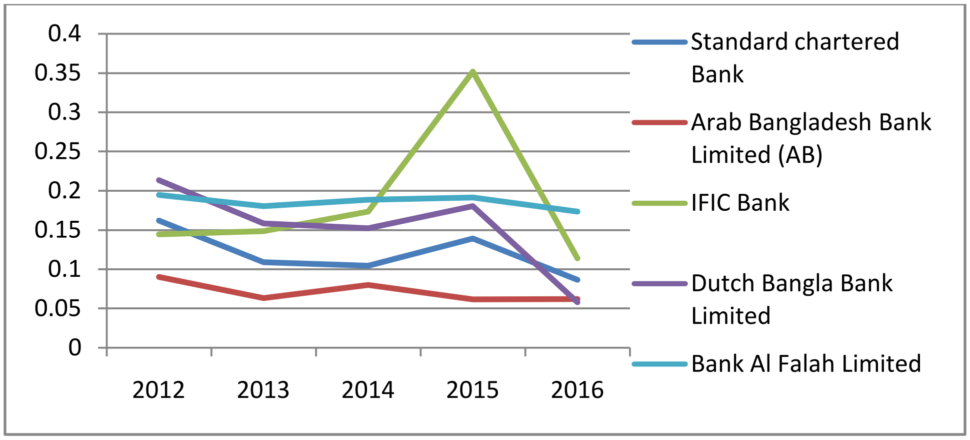


Interpretation:

Return on asset gives an idea to a manager as to how efficient a company's management in using its assets to generate better earnings. To viewing the chart we can observe that IFIC Bank has greatly improved in year 2013 to 2016 by reducing asset costs, increasing revenues than the other respective years. But Arab Bangladesh Bank Limited (AB) was not in a good condition to management in using its assets to generate better earnings.

4.1.5: Return on Equity (ROE) : (Net income/ Shareholders Equity):

Return on Equity (ROE) : (Net income/ Shareholders Equity)					
	2012	2013	2014	2015	2016
Standard chartered Bank	0.161983	0.108835	0.10448	0.13914	0.08655
Arab Bangladesh Bank Limited(AB)	0.09011	0.063462	0.08005	0.06181	0.06203
IFIC Bank	0.144138	0.148277	0.17325	0.35176	0.11367
Dutch Bangla Bank Limited	0.213193	0.15827	0.152	0.18027	0.05811
Bank Al Falah Limited	0.1946	0.1804	0.1886	0.1914	0.1735

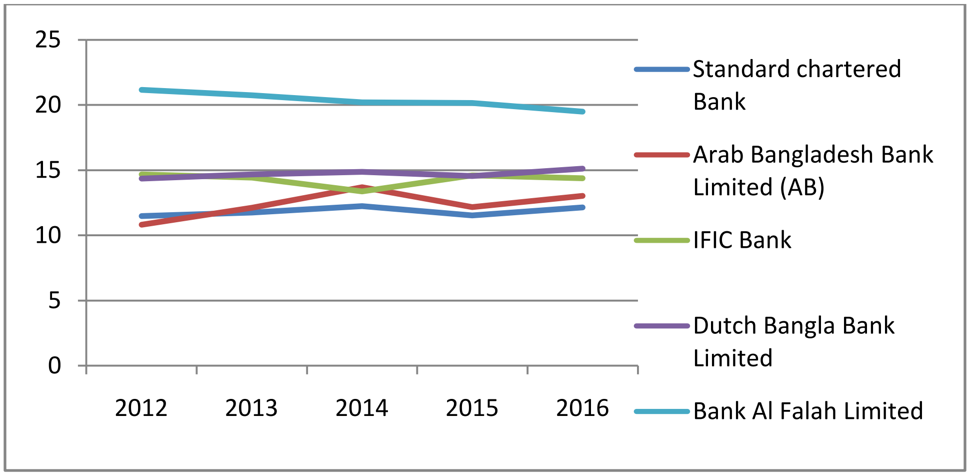


Interpretation:

Return on Equity means how much profit a company generates with the money shareholders have invested. The higher the return on equity, the more efficient the company's operations are making use of these money. From the above consequences IFIC Bank was getting more efficient in 2014 to mid of 2015, where Bank al Falah limited is not in good position entre the last (2012 to 2016) five years.

4.1.6: Financial Leverage (Total Assets / Total Share Holders Equity):

Financial Leverage (Total Assets / Total Share Holders Equity)					
	2012	2013	2014	2015	2016
Standard chartered Bank	11.48263	11.75474	12.2384	11.537	12.1526
Arab Bangladesh Bank Limited(AB)	10.81937	12.11812	13.6901	12.1708	13.0392
IFIC Bank	14.68364	14.42863	13.3684	14.6105	14.3834
Dutch Bangla Bank Limited	14.36442	14.6766	14.8782	14.5668	15.1303
Bank Al Falah Limited	21.15	20.73	20.19	20.15	19.49

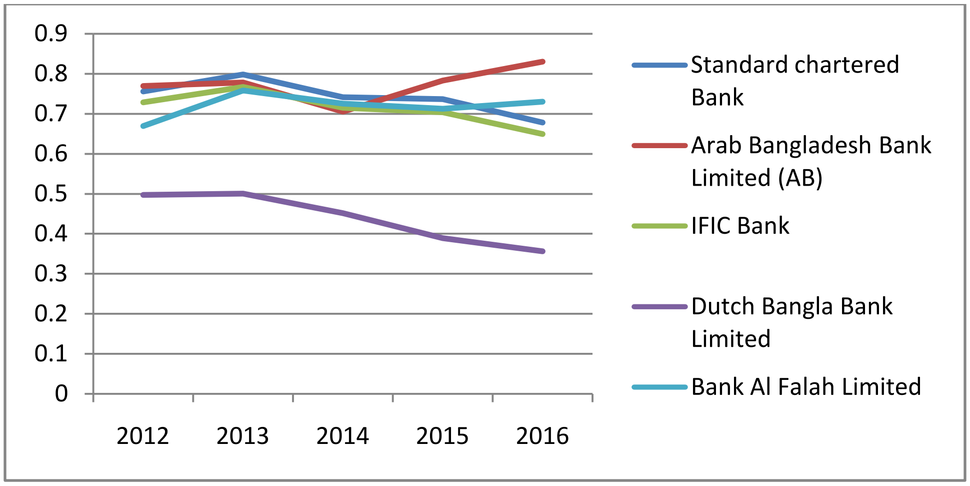


<u>Interpretation:</u>

The more debt financing a company uses, the higher its financial leverage which means high interest payments that negatively affect the company's bottom line earnings per-share. Bank Al Falah had high leverage in the last 5 years (2012-2016) compare with others, Where SCB has a lower Financial leverage compare with other banks entre 2012 to 2016.

4.1.7: Ratio of Interest Expense to Interest Income: (Interest Expense / Interest Income):

Ratio of Interest Expense to Interest Income : (Interest Expense / Interest Income)					
	2012	2013	2014	2015	2016
Standard chartered Bank	0.75512	0.79759	0.74073	0.73637	0.67773
Arab Bangladesh Bank Limited (AB)	0.769018	0.777625	0.70534	0.78237	0.82978
IFIC Bank	0.727996	0.766357	0.71443	0.70327	0.64903
Dutch Bangla Bank Limited	0.496924	0.50052	0.45197	0.38933	0.3563
Bank Al Falah Limited	0.769018	0.777625	0.70534	0.78237	0.82978

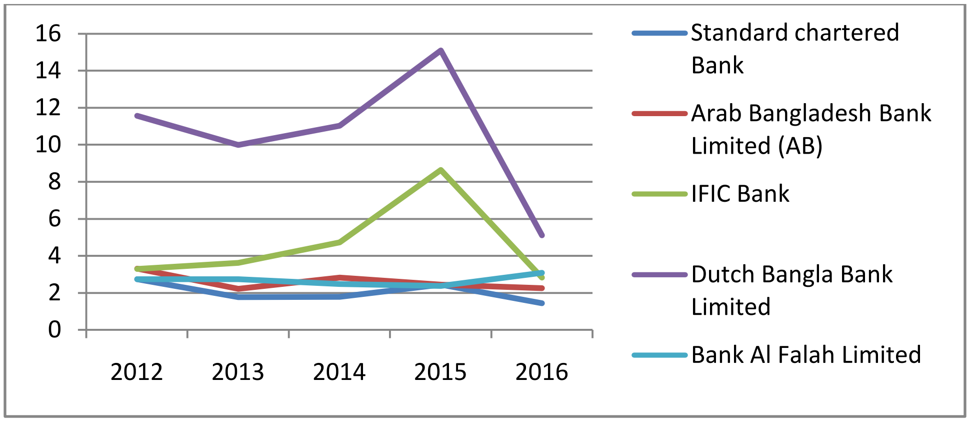


<u>Interpretation:</u>

An interest expense is the cost incurred by an entity for borrowed funds. It represents interest payable on any borrowings – bonds, loans, convertible debt or lines of credit. By analyzing the chart Standard chartered Bank Limited had incurred cost regarding borrowed funds in the year of 2012 to 2016 which was not good for the bank's profitability, where Dutch Bangla Bank Limited is totally deferent than others, their interest expense is very lower than their other competitor which is very good for their profitability.

4.1.8: Earnings per share: (EPS)

EPS					
	2012	2013	2014	2015	2016
Standard chartered Bank	2.73	1.77	1.78	2.43	1.44
Arab Bangladesh Bank Limited (AB)	3.3	2.21	2.82	2.43	2.24
IFIC Bank	3.28	3.6	4.71	8.64	2.81
Dutch Bangla Bank Limited	11.57	10	11.03	15.1	5.11
Bank Al Falah Limited	2.73	2.73	2.46	2.36	3.07



Interpretation:

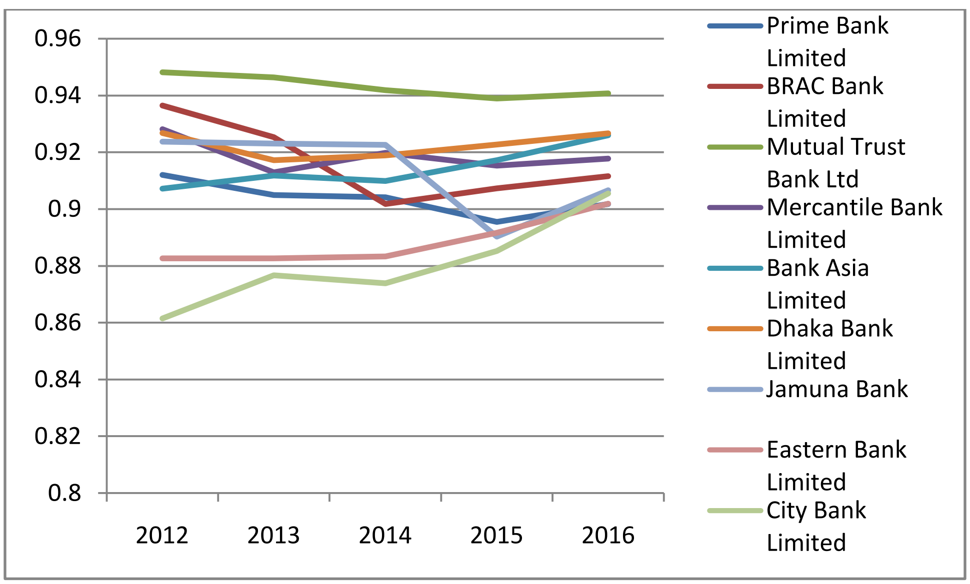
A company with high earnings per share ratio is capable of generating a significant dividend for investors, or it may plow the funds back into its business for more growth. Here we can see that the Dutch Bangla Bank Limited had high EPS ratio in year 2012 to 2016 compare with their compititor, which was lead them to provide more dividend to the common shareholders, where Bank Al Falah Limited, Arab Bangladesh Bank Limited (AB), Standard chartered Bank had hold lower EPS than their other competitor banks.

4.2: Private Commercial Banks of Bangladesh

To understand the business position, business strength and weakness of the Private commercial banks in Bangladesh I took help form the ratio analysis calculation. I calculate and interpreted the Debt ratio, Debt to Equity ratio, timed interest earned ratio, Return on asset, Return on equity, Financial leverage, Ratio of interest expense to interest income, and Earning per share ratio of Prime bank, BRAC Bank, Mutual Trust Bank, Mercantile Bank Limited, Bank Asia Limited, Dhaka Bank Limited, Jamuna Bank, Eastern Bank Limited and City Bank Limited Which are as follows:

4.2.1: Debt ratio: (Total liability/Total assets):

Debt ratio: (Total liability/Total assets)					
	2012	2013	2014	2015	2016
Prime Bank Limited	0.91199	0.90486	0.90411	0.89544	0.90179
BRAC Bank Limited	0.93639	0.92522	0.90173	0.9073	0.91153
Mutual Trust Bank Ltd	0.94812	0.94629	0.94178	0.93887	0.94063
Mercantile Bank Limited	0.9281	0.91294	0.9198	0.91529	0.91772
Bank Asia Limited	0.90715	0.91181	0.90982	0.91715	0.92599
Dhaka Bank Limited	0.92676	0.91716	0.9188	0.92274	0.92663
Jamuna Bank	0.92376	0.92308	0.92258	0.89034	0.90671
Eastern Bank Limited	0.88269	0.88266	0.88334	0.89164	0.90191
City Bank Limited	0.86147	0.8767	0.8739	0.88523	0.90554

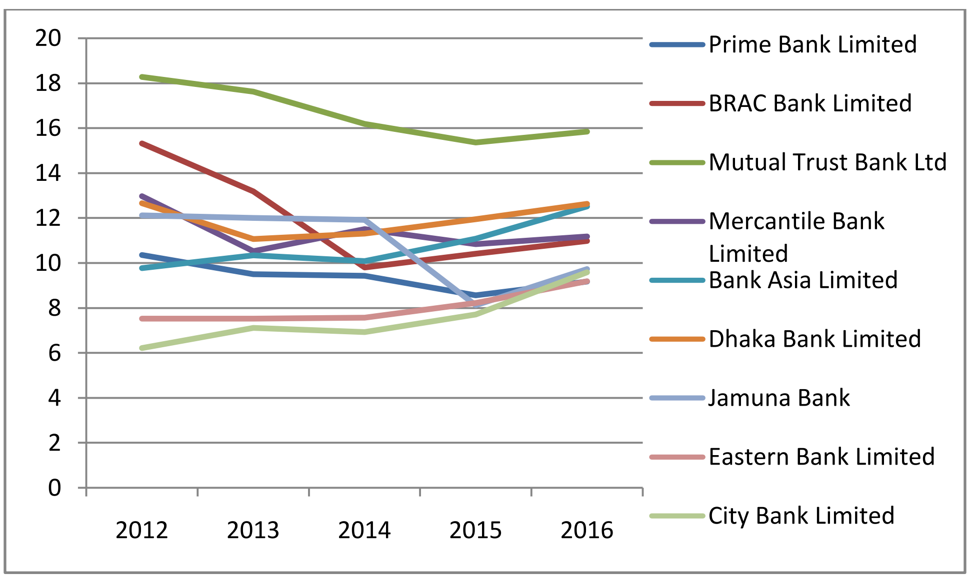


<u>Interpretation:</u>

Debt ratio means the ratio of total debt to total assets. A debt ratio greater than 1 Means Company has more debt than assets and lower than 1 means they has more assets to meet up the debt. Where these nine Banks of Bangladesh had debt ratio comparatively less than 1 which means their debt portions in the respective years was capable to meet up but they are very close to 1, as we see the chart city bank was in a better position compare with other nine private banks. Where mutual trust bank is very close to 1 that means they has taken more risk than the other banks.

4.2.2: Debt to equity ratio: (Total liability/Shareholders equity):

Debt to equity ratio: (Total liability/Shareholders equity)					
	2012	2013	2014	2015	2016
Prime Bank Limited	10.3621	9.51105	9.4285	8.56367	9.18264
BRAC Bank Limited	15.3213	13.1833	9.8049	10.416	10.9856
Mutual Trust Bank Ltd	18.2739	17.6203	16.1778	15.3591	15.8432
Mercantile Bank Limited	12.9694	10.5303	11.5133	10.8418	11.1878
Bank Asia Limited	9.76968	10.3391	10.0886	11.0701	12.5111
Dhaka Bank Limited	12.6534	11.0716	11.3159	11.9436	12.6291
Jamuna Bank	12.1158	11.9999	11.9164	8.11892	9.71923
Eastern Bank Limited	7.52454	7.52227	7.57165	8.22814	9.19485
City Bank Limited	6.218827	7.112612	6.93124	7.71413	9.58604

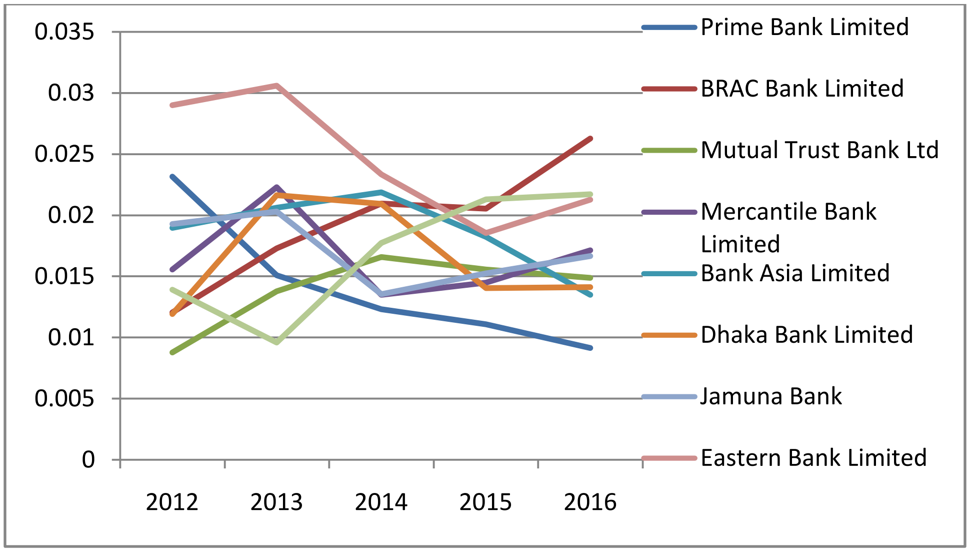


Interpretation:

Debt to equity ratio is an indicating the relative proportion of the Shareholders equity and debt used to finance a company's assets. A high debt to equity ratio generally means that a company has been more aggressive in financing its assets by debt. From above result we see that the City Bank was in a lower D/E ratio compare with other banks. Which means they were financed more assets with debts and leads them with more volatile earnings as a result of additional interest expense. Where Mutual trust bank ltd has a high debt to equity ratio, it generally means that a company has been more aggressive in financing its assets by debt.

4.2.3: Time interest earned ratio: (EBIT/Total assets):

Time interest earned ratio: (EBIT/Total assets)					
	2012	2013	2014	2015	2016
Prime Bank Limited	0.02316	0.01508	0.0123	0.01107	0.00914
BRAC Bank Limited	0.01206	0.01728	0.02095	0.02053	0.02627
Mutual Trust Bank Ltd	0.00879	0.01379	0.01659	0.01557	0.01488
Mercantile Bank Limited	0.01556	0.02229	0.01349	0.01448	0.01714
Bank Asia Limited	0.01898	0.02063	0.02188	0.01824	0.01351
Dhaka Bank Limited	0.01193	0.02165	0.02094	0.01404	0.01412
Jamuna Bank	0.01931	0.02032	0.01356	0.01525	0.01667
Eastern Bank Limited	0.02901	0.0306	0.02335	0.01856	0.02127
City Bank Limited	0.013935	0.009605	0.01775	0.0213	0.02172



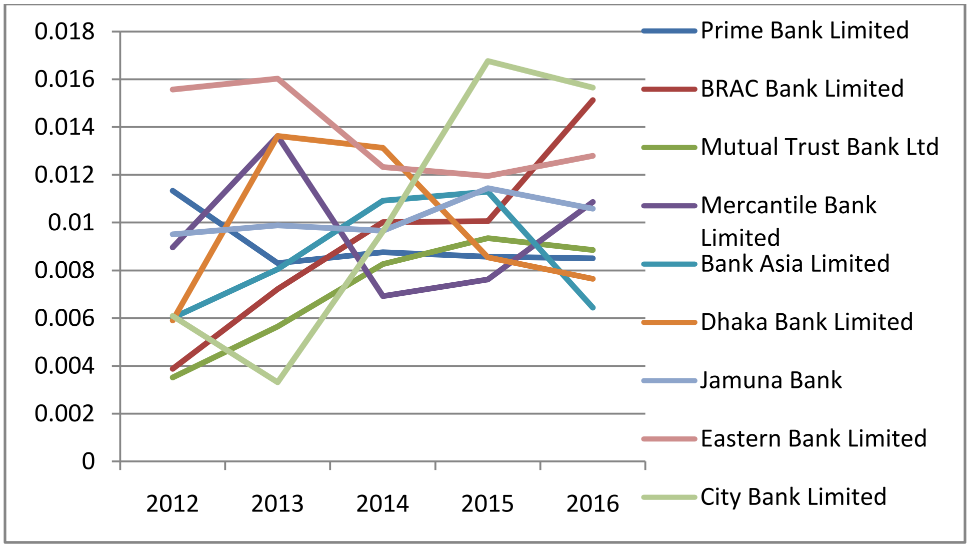
<u>Interpretation:</u>

Interest coverage ratio or TIE ratio means how much a company has the ability to honor its debt payments. Here we can say that obviously the higher ratio considered more favorable than smaller ratios. Here Estern bank ltd was more capable in 2012, to mid of 2015 to meet up the interest with it's before tax income, whether brac bank did well in mid of 2015 to 2016 to honor their debt payment. Prime bank ltd was lead in not a good condition to mid of 2013 to 2016 to honor their debt payments.

4.2.4: Return on Asset (ROA) : (Net income/ Total Asset):

Return on Asset (ROA) : (Net income/ Total Asset)					
	2012	2013	2014	2015	2016
Prime Bank Limited	0.01134	0.0083	0.00876	0.00857	0.0085
BRAC Bank Limited	0.00388	0.00722	0.01002	0.01007	0.01514
Mutual Trust Bank Ltd	0.00352	0.00565	0.00827	0.00935	0.00885
Mercantile Bank Limited	0.00897	0.01363	0.00693	0.00763	0.01087
Bank Asia Limited	0.00602	0.00806	0.01093	0.0113	0.00645
Dhaka Bank Limited	0.0059	0.01363	0.01313	0.00854	0.00764

Jamuna Bank	0.00952	0.0099	0.00967	0.01145	0.01059
Eastern Bank Limited	0.01557	0.01603	0.01233	0.01195	0.01279
City Bank Limited	0.006096	0.003322	0.00964	0.01677	0.01566



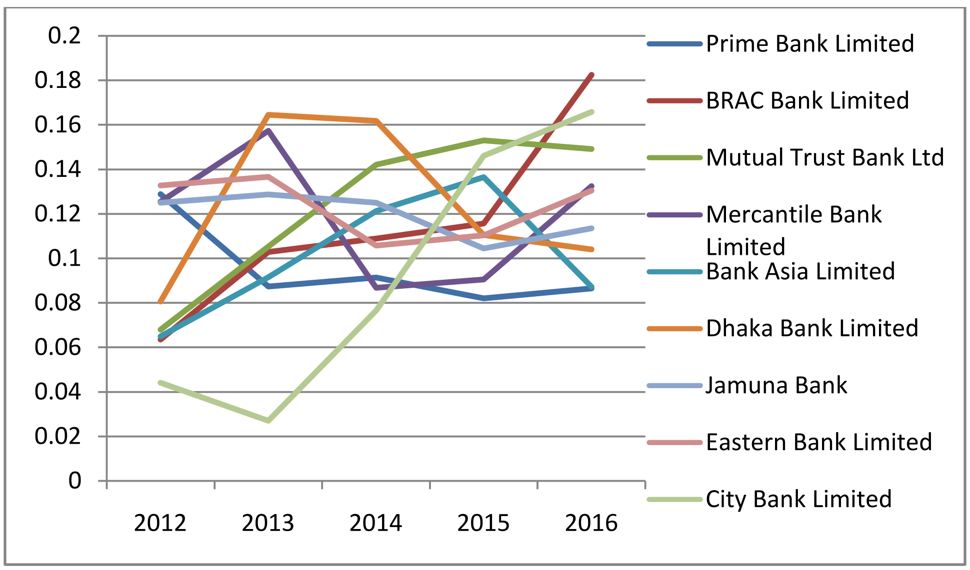
<u>Interpretation:</u>

Return on asset gives an idea to a manager as to how efficient a company's management in using its assets to generate better earnings. To viewing the chart we can observe that Eastern Bank Limited has greatly improved in year 2013 to 2014 by reducing asset costs, increasing revenues than the other respective years, and city bank limited did better in 2014 to 2016,Where mutual trust bank was not in a good condition to manage in using its assets to generate better earnings.

4.2.5: Return on Equity (ROE) : (Net income/ Shareholders Equity):

Return on Equity (ROE) : (Net income/ Shareholders Equity)					
	2012	2013	2014	2015	2016
Prime Bank Limited	0.12883	0.08726	0.09135	0.08199	0.08651

BRAC Bank Limited	0.06347	0.10284	0.10895	0.11562	0.18245
Mutual Trust Bank Ltd	0.06783	0.1052	0.14202	0.153	0.14907
Mercantile Bank Limited	0.12531	0.15722	0.08674	0.09041	0.13246
Bank Asia Limited	0.06481	0.0914	0.12122	0.13639	0.08716
Dhaka Bank Limited	0.08059	0.16451	0.16177	0.11049	0.10408
Jamuna Bank	0.12489	0.12866	0.1249	0.10445	0.11347
Eastern Bank Limited	0.13271	0.1366	0.10565	0.11023	0.13039
City Bank Limited	0.044009	0.026953	0.07648	0.14617	0.1658

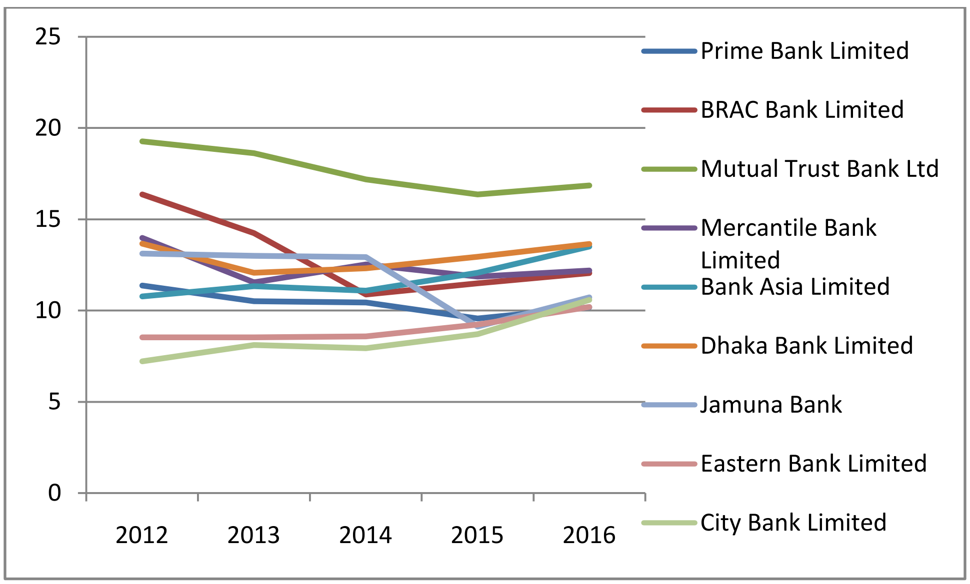


<u>Interpretation:</u>

Return on Equity means how much profit a company generates with the money shareholders have invested. The higher the return on equity, the more efficient the company's operations are making use of these money. From the above consequences Dhaka Bank was getting more efficient in 2013 to mid of 2014,and Brac bank doing good in 2016, where City bank is not in good position in 2012 and 2013 but they recovered their problems after 2014.

4.2.6: Financial Leverage (Total Assets / Total Share Holders Equity)

Financial Leverage (Total Assets / Total Share Holders Equity)					
	2012	2013	2014	2015	2016
Prime Bank Limited	11.3621	10.5111	10.4285	9.56367	10.1826
BRAC Bank Limited	16.3621	14.2487	10.8735	11.4802	12.0519
Mutual Trust Bank Ltd	19.274	18.6204	17.1778	16.3591	16.8432
Mercantile Bank Limited	13.9742	11.5345	12.5172	11.8452	12.1908
Bank Asia Limited	10.7697	11.3391	11.0886	12.0701	13.5111
Dhaka Bank Limited	13.6534	12.0716	12.3159	12.9436	13.6291
Jamuna Bank	13.1158	12.9999	12.9164	9.11892	10.7192
Eastern Bank Limited	8.52454	8.52227	8.57165	9.22814	10.1949
City Bank Limited	7.218832	8.112932	7.93137	8.71423	10.586

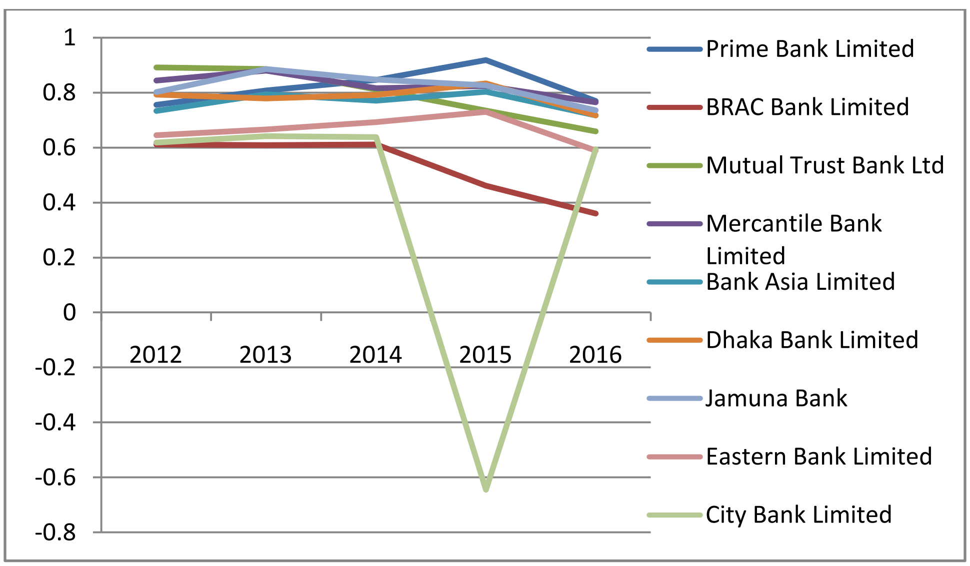


<u>Interpretation:</u>

The more debt financing a company uses, the higher its financial leverage which means high interest payments that negatively affect the company's bottom line earnings per-share. Mutual trust bank had a high leverage in the last 5 years (2012-2016) compare with other competitor banks, where city bank has a lower Financial leverage compare with other banks entre 2012 to 2016.

4.2.7: Ratio of Interest Expense to Interest Income: (Interest Expense / Interest Income):

Ratio of Interest Expense to Interest Income : (Interest Expense / Interest Income)					
	2012	2013	2014	2015	2016
Prime Bank Limited	0.75554	0.80813	0.84629	0.91828	0.76948
BRAC Bank Limited	0.61065	0.60798	0.61013	0.4607	0.35988
Mutual Trust Bank Ltd	0.89158	0.8856	0.81115	0.73456	0.65924
Mercantile Bank Limited	0.84316	0.87925	0.81558	0.82407	0.7652
Bank Asia Limited	0.73317	0.7932	0.77048	0.80293	0.71697
Dhaka Bank Limited	0.79277	0.77889	0.79151	0.83352	0.71746
Jamuna Bank	0.80188	0.88594	0.84732	0.82706	0.73564
Eastern Bank Limited	0.64455	0.66646	0.69231	0.72954	0.58959
City Bank Limited	0.619037	0.641965	0.63799	-0.645	0.5945

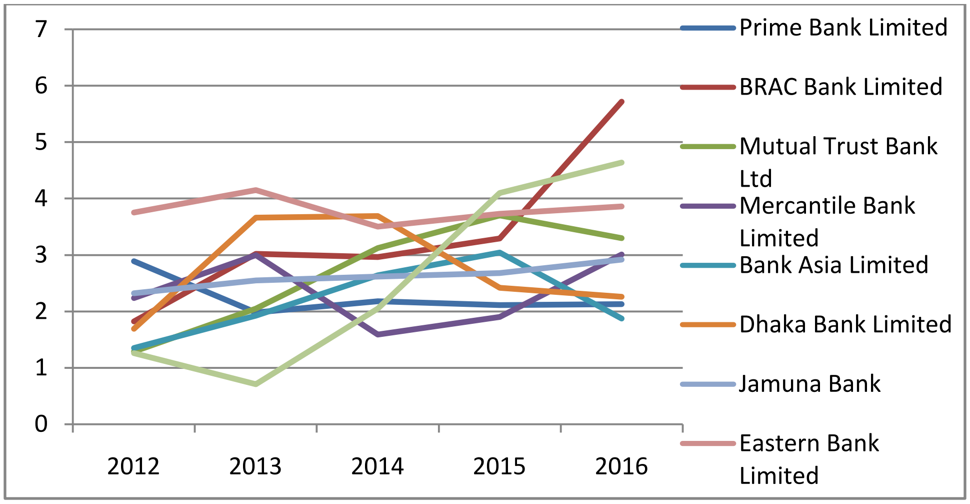


Interpretation:

An interest expense is the cost incurred by an entity for borrowed funds. It represents interest payable on any borrowings – bonds, loans, convertible debt or lines of credit. By analyzing the chart Mercantile Bank Limited had incurred cost regarding borrowed funds in the year of 2012 to 2016 which was not good for the bank's profitability, where city bank is totally deferent than others, their interest expense is very lower than their other competitor which is very good for their profitability.

4.2.8: Earnings per share:(EPS)

EPS					
	2012	2013	2014	2015	2016
Prime Bank Limited	2.89	1.98	2.18	2.11	2.13
BRAC Bank Limited	1.82	3.02	2.96	3.29	5.72
Mutual Trust Bank Ltd	1.29	2.05	3.12	3.7	3.3
Mercantile Bank Limited	2.24	3	1.59	1.9	3.01
Bank Asia Limited	1.35	1.92	2.64	3.04	1.87
Dhaka Bank Limited	1.69	3.66	3.69	2.42	2.26
Jamuna Bank	2.32	2.55	2.62	2.68	2.92
Eastern Bank Limited	3.75	4.15	3.5	3.73	3.86
City Bank Limited	1.26	0.71	2.05	4.1	4.64



<u>Interpretation:</u>

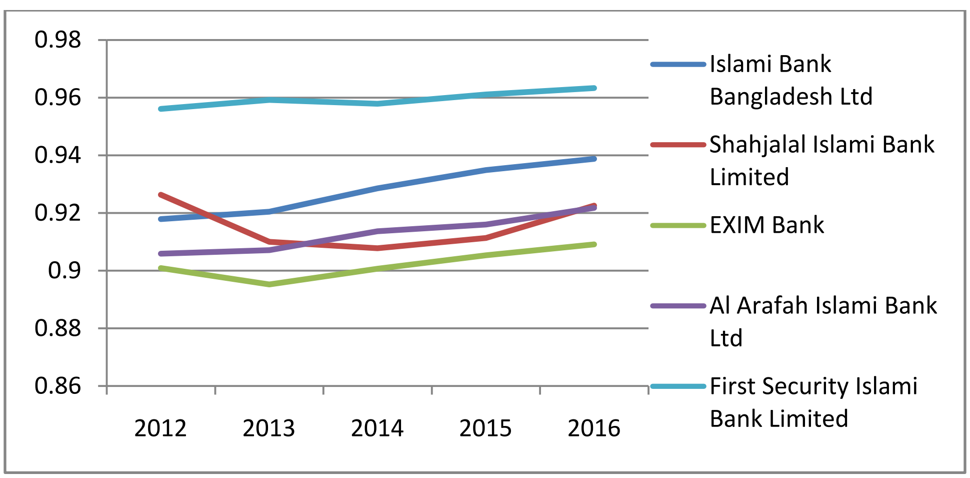
A company with high earnings per share ratio is capable of generating a significant dividend for investors, or it may plow the funds back into its business for more growth. Here we can see that all of the local private banks we represent hold approximate EPS, and they all maintain the standard earning per share ratio where they all are capable of generating a significant dividend for the investors.

4.3: Islamic Commercial Private Banks of Bangladesh

To understand the business position, business strength and weakness of the Islamic commercial private banks in Bangladesh I took help form the ratio analysis calculation. I calculate and interpreted the Debt ratio, Debt to Equity ratio, timed interest earned ratio, Return on asset, Return on equity, Financial leverage, Ratio of interest expense to interest income, and Earning per share ratio of Islami Bank Bangladesh Ltd, Shahjalal Islami Bank Ltd, Exim Bank, Al Arafah Islami Bank Ltd, and First Security Islami Bank Ltd Which are as follows:

4.3.1: Debt ratio: (Total liability/Total assets):

Debt ratio: (Total liability/Total assets)					
	2012	2013	2014	2015	2016
Islami Bank Bangladesh Ltd	0.91783	0.92038	0.92851	0.93484	0.93878
Shahjalal Islami Bank Limited	0.92632	0.90997	0.9078	0.9113	0.92253
EXIM Bank	0.9009	0.89517	0.90058	0.90525	0.90909
Al Arafah Islami Bank Ltd	0.9059	0.90707	0.91371	0.91604	0.92181
First Security Islami Bank Limited	0.95602	0.95919	0.9578	0.96106	0.96334

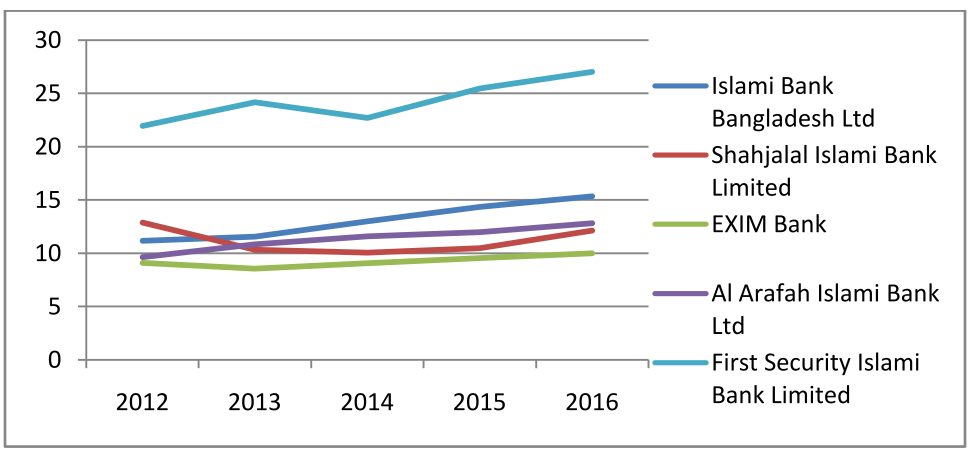


Interpretation:

Debt ratio means the ratio of total debt to total assets. A debt ratio greater than 1 Means Company has more debt than assets and lower than 1 means they has more assets to meet up the debt. Where these five Banks of Bangladesh had debt ratio comparatively less than 1 which means their debt portions in the respective years was capable to meet up but they are very close to 1, as we see the chart exim bank was in a better position compare with other five Islamic commercial banks. Where First Security Islami Bank Limited is very close to 1 that means they has taken more risk than the other banks.

4.3.2: Debt to equity ratio: (Total liability/Shareholders equity)

Debt to equity ratio: (Total liability/Shareholders equity)					
	2012	2013	2014	2015	2016
Islami Bank Bangladesh Ltd	11.1693	11.5599	12.987	14.3463	15.3354
Shahjalal Islami Bank Limited	12.8663	10.3161	10.0372	10.4666	12.1275
EXIM Bank	9.09044	8.53909	9.05882	9.55428	9.99961
Al Arafah Islami Bank Ltd	9.62726	10.8335	11.5966	11.9804	12.8278
First Security Islami Bank Limited	21.9291	24.1423	22.6941	25.4383	27.0087

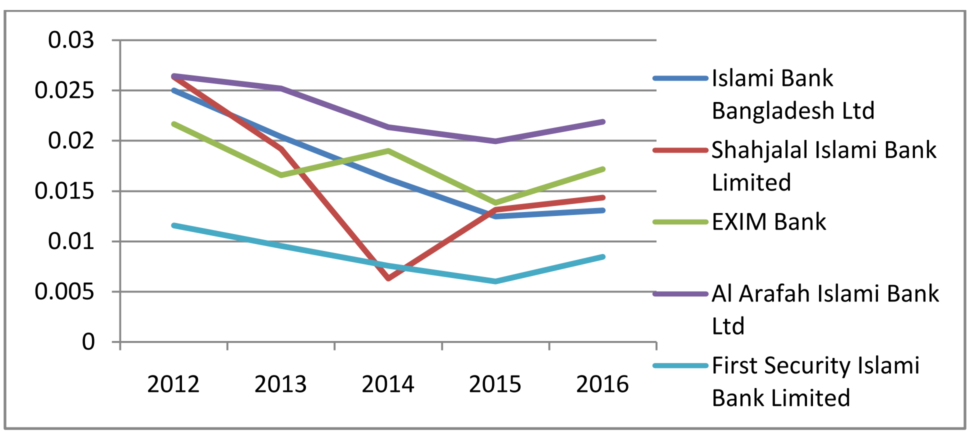


<u>Interpretation:</u>

Debt to equity ratio is an indicating the relative proportion of the Shareholders equity and debt used to finance a company's assets. A high debt to equity ratio generally means that a company has been more aggressive in financing its assets by debt. From above result we see that the EXIM Bank was in a lower D/E ratio compare with other banks. Which means they were financed more assets with debts and leads them with more volatile earnings as a result of additional interest expense. Where First Security Islami Bank Limited has a high debt to equity ratio, it generally means that a company has been more aggressive in financing its assets by debt.

4.3.3: Time interest earned ratio: (EBIT/Total assets)

Time interest earned ratio: (EBIT/Total assets)					
	2012	2013	2014	2015	2016
Islami Bank Bangladesh Ltd	0.02498	0.02038	0.01618	0.01246	0.01307
Shahjalal Islami Bank Limited	0.02634	0.01917	0.00628	0.01312	0.01434
EXIM Bank	0.02164	0.01656	0.01896	0.01382	0.01717
Al Arafah Islami Bank Ltd	0.02641	0.02518	0.02132	0.01992	0.02185
First Security Islami Bank Limited	0.01157	0.00952	0.00758	0.00601	0.00847

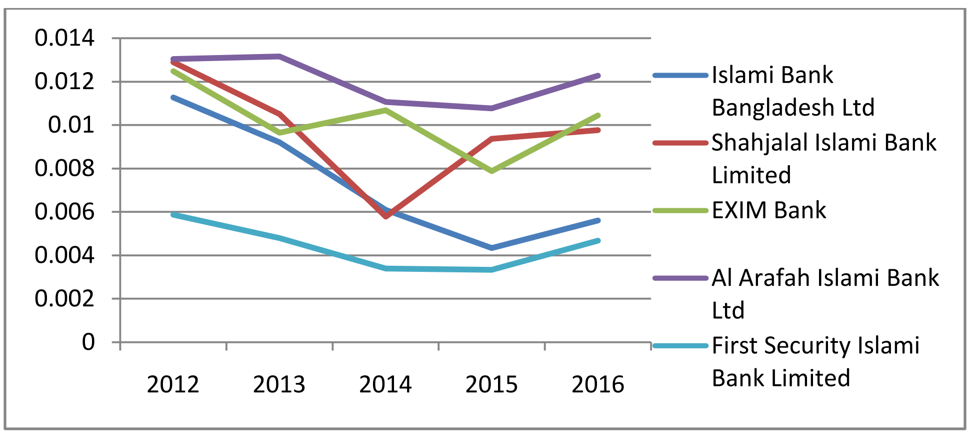


<u>Interpretation:</u>

Interest coverage ratio or TIE ratio means how much a company has the ability to honor its debt payments. Here we can say that obviously the higher ratio considered more favorable than smaller ratios. Here the bank Al Arafah ltd was more capable in 2012, to 2016 to meet up the interest with it’s before tax income, whether First Security Islami Bank Limited did not do well in 2012 to 2016 to honor their debt payment.

4.3.4: Return on Asset (ROA) : (Net income/ Total Asset)

Return on Asset (ROA) : (Net income/ Total Asset)					
	2012	2013	2014	2015	2016
Islami Bank Bangladesh Ltd	0.01126	0.00919	0.00609	0.00434	0.00561
Shahjalal Islami Bank Limited	0.01289	0.0105	0.00578	0.00936	0.00976
EXIM Bank	0.01247	0.00964	0.01067	0.00787	0.01044
Al Arafah Islami Bank Ltd	0.01303	0.01315	0.01105	0.01076	0.01227
First Security Islami Bank Limited	0.00587	0.00479	0.00339	0.00333	0.00468

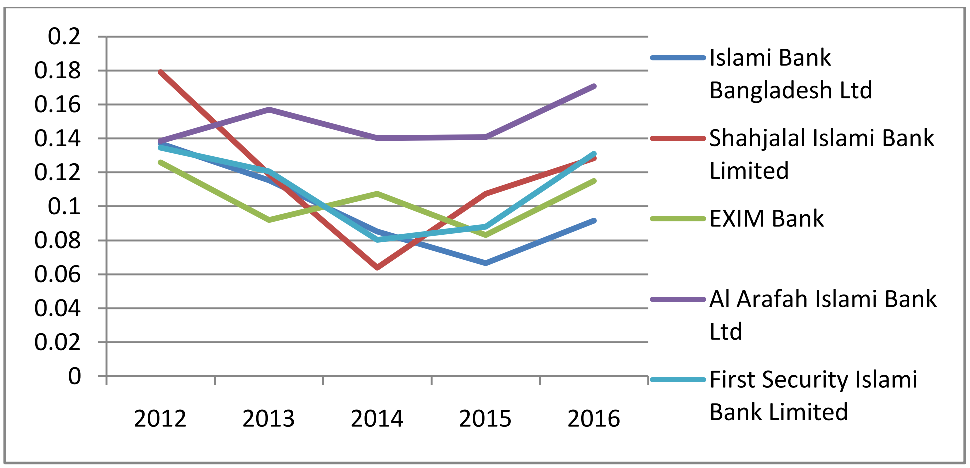


Interpretation:

Return on asset gives an idea to a manager as to how efficient a company's management in using its assets to generate better earnings. To viewing the chart we can observe that Al Arafah Islami Bank Ltd has greatly improved in year 2012 to 2016 by reducing asset costs, increasing revenues than the other respective years, Where First Security Islamic Bank Limited was not in a good condition to manage in using its assets to generate better earnings.

4.3.5: Return on Equity (ROE) : (Net income/ Shareholders Equity)

Return on Equity (ROE) : (Net income/ Shareholders Equity)					
	2012	2013	2014	2015	2016
Islami Bank Bangladesh Ltd	0.13701	0.11545	0.08517	0.06661	0.0917
Shahjalal Islami Bank Limited	0.17901	0.11899	0.06387	0.10747	0.12836
EXIM Bank	0.12587	0.09199	0.10737	0.08306	0.11485
Al Arafah Islami Bank Ltd	0.13846	0.15703	0.14022	0.14076	0.17079
First Security Islami Bank Limited	0.13464	0.12062	0.08029	0.08804	0.13107



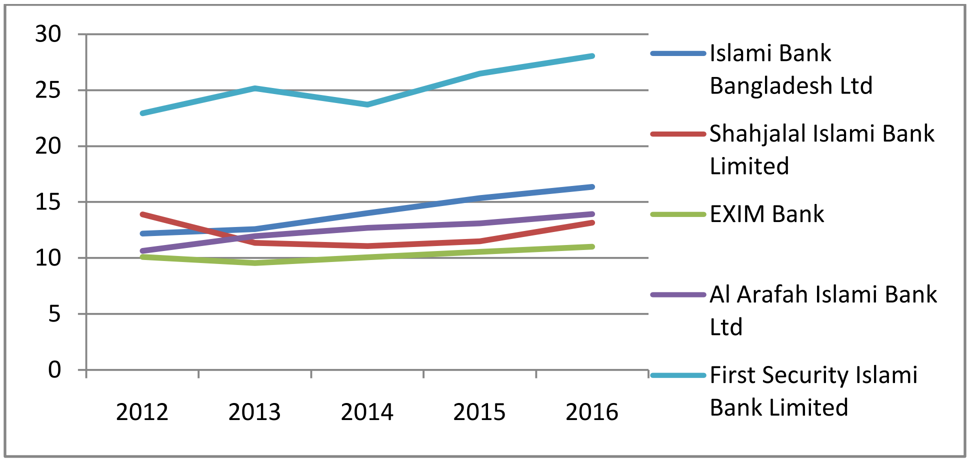
<u>Interpretation:</u>

Return on Equity means how much profit a company generates with the money shareholders have invested. The higher the return on equity, the more efficient the company's operations are making use of these money. From the above consequences Al Falah islami Bank Ltd was getting more efficient in mid of 2012 to 2016,and Shahjalal Islami Bank Limited doing good in 2012, where they are not well position in 2014 on return on equity.

4.3.6: Financial Leverage (Total Assets / Total Share Holders Equity)

Financial Leverage (Total Assets / Total Share Holders Equity)					
	2012	2013	2014	2015	2016

Islami Bank Bangladesh Ltd	12.1693	12.5599	13.987	15.3463	16.3354
Shahjalal Islami Bank Limited	13.8898	11.3368	11.0565	11.4853	13.1459
EXIM Bank	10.0905	9.53909	10.0588	10.5543	10.9996
Al Arafah Islami Bank Ltd	10.6273	11.9433	12.6919	13.0784	13.9158
First Security Islami Bank Limited	22.9378	25.1696	23.6941	26.469	28.0366



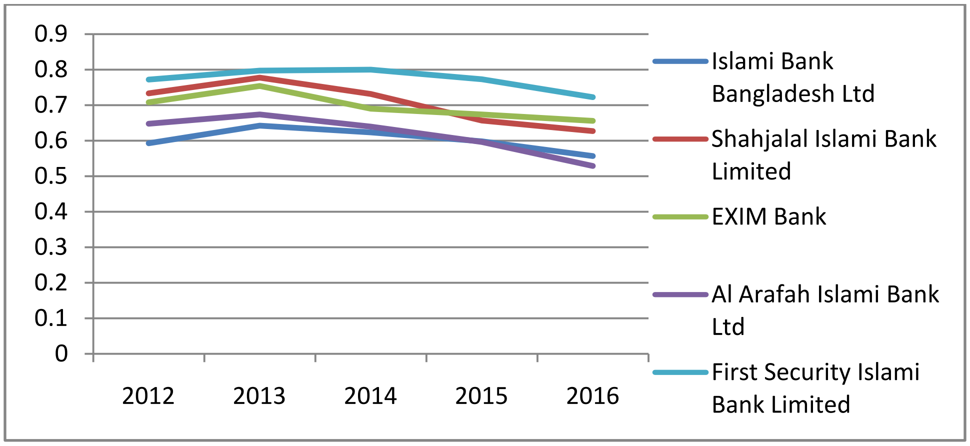
Interpretation:

The more debt financing a company uses, the higher its financial leverage which means high interest payments that negatively affect the company's bottom line earnings per-share. First Security Islami Bank Limited had a high leverage in the last 5 years (2012-2016) compare with other competitor banks, where EXIM Bank has a lower Financial leverage compare with other banks entre 2012 to 2016.

4.3.7: Ratio of Interest Expense to Interest Income: (Interest Expense / Interest Income)

Ratio of Interest Expense to Interest Income : (Interest Expense / Interest Income)					
	2012	2013	2014	2015	2016
Islami Bank Bangladesh Ltd	0.59238	0.64181	0.62295	0.59792	0.55631
Shahjalal Islami Bank Limited	0.73281	0.77693	0.73132	0.65664	0.62671
EXIM Bank	0.70754	0.75323	0.68931	0.67319	0.65516

Al Arafah Islami Bank Ltd	0.64743	0.67391	0.6396	0.59635	0.52882
First Security Islami Bank Limited	0.77189	0.79694	0.79971	0.7731	0.72249



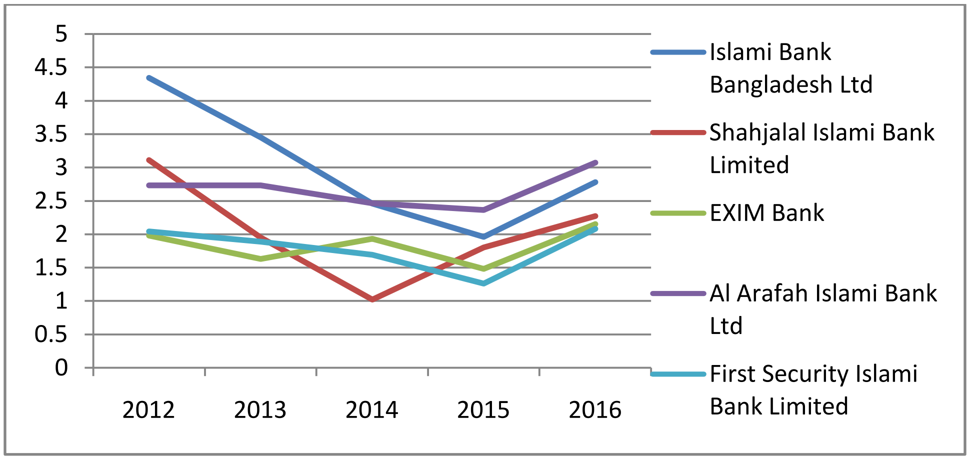
Interpretation:

An interest expense is the cost incurred by an entity for borrowed funds. It represents interest payable on any borrowings – bonds, loans, convertible debt or lines of credit. By analyzing the chart First Security Islami Bank Limited had incurred cost regarding borrowed funds in the year of 2012 to 2016 which was not good for the bank's profitability, where Islami Bank Bangladesh Ltd is totally deferent than others, their interest expense is very lower than their other competitor which is very good for their profitability.

4.3.8: Earnings per share: (EPS)

EPS					
	2012	2013	2014	2015	2016
Islami Bank Bangladesh Ltd	4.34	3.45	2.46	1.96	2.78
Shahjalal Islami Bank Limited	3.11	1.95	1.02	1.8	2.27
EXIM Bank	1.98	1.63	1.93	1.48	2.15
Al Arafah Islami Bank Ltd	2.73	2.73	2.46	2.36	3.07

First Security Islami Bank Limited	2.04	1.89	1.69	1.26	2.08



<u>Interpretation:</u>

A company with high earnings per share ratio is capable of generating a significant dividend for investors, or it may plow the funds back into its business for more growth. Here we can see that all of the islami bank we represent hold approximate EPS, and they all maintain the standard earning per share ratio where they all are capable of generating a significant dividend for investors.

Chapter: 05

Recommendations and Conclusion

5.1: Recommendations & Conclusion

Banking sector area in any nation plays a significant role in setting the economy in motion and in its development process, while the banking structure-the number and size appropriation of bank in a specific territory and the relative market power of specific banking institution- determines the degree of competition, efficiency and performance level of the banking system. Like product markets, the supply of and demand for the product of the banking system influence the banking market, and the banking system in Bangladesh is no desire.

Bangladesh krishi Bank, The Grammen bank, , Bngladesh shilpa bank, Social Investment Bank, Karmasangsthan Bank and furthermore World Bank are ttempting to social improvement of Bangladesh. The general development pattern of banking sector in Bangladesh is quit insignificant and inconsistent with the objectives and costs of its reform programs.

The commercial banks are currently viewed system of all economic development in the Bangladesh. Commercial banks are now utilizing most recent information technology, competing in the open market with high technology system, changing from domestic banking to investment banking. Bangladesh is a rising economic country. In Bangladesh we have total 58 banks to provide its services across the nation. Be that as it may, all banks do not provide online banking services. Some bank administrations are so constrained (such as only general banking). State owned commercial bank and specialized development bank is not effective for foreign people, because of their administrations are pending and delay. Private commercial banks are extremely for foreign people. Some Some private business banks are giving one stop services for non-resident Bangladeshi (NRB) which is very effective for foreign people. For example Dutch Bangla Bank, BRAC Bank, National Bank Limited, Islami Bank Bangladesh Limited, etc

There are a few stages that can be taken to improve the efficiency of Bangladesh's banking sector and tackle the challenges outlined above. To start with, banking sector should accelerate the rate of technology adoption, alongside putting resources investing in training bank employees in appropriate use of technology. Specifically, all bank workers ought to be prepared on basic cyber-security precautions to thwart cyber-attacks like the 2016 heist, and the Sonali Bank hacking. In addition customary preparing, there ought to be strict oversight, responsibility for workers and accountability for employees and their use of bank technology. The utilization of innovation/technology rather than manual interventions by employees can also reduce opportunities for corruption and mismanagement, and an electronic paper trail of financial activities will result in better responsibility and straightforwardness or accountability and transparency.

The banking sector has made significant progress because of the changes in the 1990s, 2000s and afterwards. However, the sector should get ready for the up and coming age of worldwide administrative system and address developing customers' need. In the coming days, the banking industry should accomplish the capacity to absorb shocks arising from improve risk management, financial and economic stress, and governance, and strengthen banks' transparency and disclosures. What's more, if the segment needs to assume/play the larger role of contributing towards a stable and sound macroeconomic situation, the banking sector has to go through the painful path of stricter approach and legitimate measures.

Despite the fact that advancement strategy has been sought after for long time, the outcome is still a long way from the normal ones. Interest rate is still too high (above 15 percent) which is not favorable to business entities. In addition, the target of financial inclusion has not been encouraged by this admitted arrangement.

If the concerned authorities take all the steps outlined above, Bangladesh's banking sector can thrive in the years to come. The nation has officially taken incredible walks forward over the last 45 years since independence, and must continue to improve the financial infrastructure to ensure economic growth, financial stability, and development in 2021 and Past.

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