

# ***THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT***

## **Performance Analysis of New Banks in Bangladesh Based on Basic Criteria**

**Sharmin Sultana**

Student, PGDCM, Bangladesh Institute of Capital Market, Bangladesh

### **Abstract:**

*Banking is one of the established industries in Bangladesh. In this developing country economy is growing day by day. Banking industry helps the economy to achieve the growth by continuous development of the entire industries. To reach the highest position more banks need to introduce in the banking industry. For this reason, GOB has permitted the entrepreneurs to establish new banks who can contribute in the industry by fair competition and satisfactory services. These recently established banks are sustaining for near about 4 years. Now it is a burning question about the performance of these banks. It can be determined by measuring the growth of these banks in the previous years. This study has been performed on the growth of deposit, total assets, loan & advances, total investment, net profit after tax, EPS, ROA and advance-deposit ratio as well as total liabilities*

**Keywords:** Growth, Deposit, Investments, Net Profit after Tax, Debt Ratio

### **1. Introduction**

Financial institutions are one of the vital elements to ensure economic development of a country. Generally, banks are understood as financial institutions. Today banks are not only mean to collect deposit from different parties and providing loan by using those deposits but also involve in offering different type of services for earning profit. In modern time banks have spread their business in different areas and confirming their assistance to achieve the financial goal of a country.

As GDP increases the size of the economy also increases. In this situation new areas or ways of business also have been created. Other side if the overall economic condition is in favor of investment then financial institutions like banks also try to take benefit of this growing economy. For these reasons many entrepreneurs had seek permission from Bangladesh Government to run new banks in Bangladesh. Bangladesh Government has permitted most eligible entrepreneurs to operate banks in Bangladesh which are called "Fourth Generation Bank". This study has been performed to analysis the growth of these newly established banks.

On September 27, 2011 Bangladesh Bank issued a circular about seeking applications for new banks where the interested entrepreneurs are asked to apply by November 30, 2011 with a Tk 1 million as non-refundable deposit. A condition was also attached where applications of those would not be considered who had a record of loan default in last five years or facing any such cases. Other prerequisite included paid-up capital of Tk 4 billion, holding 10 percent share by an individual sponsor, keeping no more than 13 members in the board, providing the bank capital from the investors' properties as shown in the income tax statement. BB received as many as 37 applications & short listed 16 applications after preliminary screening. In a board meeting with BB Governor Atiur Rahman in the chair held on April 08, 2012 BB approved six new banks. Those are Union Bank Limited, Modhumoti Bank Limited, The Farmers Bank Limited, South Bangla Agriculture and Commerce Bank Limited, Meghna Bank Limited and Midland Bank Limited. Up to the end of the April total nine banks including 6 private commercial banks (PCBs) and 3 NRB banks got approval. In February, 2013 five banks got license to start the business upon their due compliance with all the preconditions. These are NRB Commercial Bank Limited, Union Bank Limited, South Bangla Agriculture and Commerce Bank Limited, Meghna Bank Limited & NRB Bank Limited. In March, 2013 BB had given clearance to another three banks to start commercial operation. Within March 31, 2013 NRB Global Bank Limited has been allowed to complete its formalities as required to get the license. NRB Global Bank Limited has got the final approval on July 25, 2013 from the regulatory body to run the banking business in Bangladesh.

### **2. Objective of the Study**

The study is designed to achieve the following objectives:

- The main objective of this study is to analysis the growth and performance of the selected five (5) new banks.

- After the establishment of these banks no study has been done. Another purpose of this study is to find out the percentage of growth on the aspects of deposit, assets, loan, ROA etc.
- By relating these two objectives it can be judged the decision being appropriate to operate new banks in Bangladesh wise or not.

**3. Methodology**

The nature of this study is descriptive for evaluating the growth of these banks. The existing ideas and concepts of finance are chosen for the study. Almost 9 banks got permission from Bangladesh Bank to operate their business. Here 5 banks are taken as sample for the study. These are NRB Commercial Bank Limited, Midland Bank Ltd., Modhumoti Bank Limited, Meghna Bank Limited and Union Bank Limited.

Data has been collected basically from secondary sources; i.e. from websites, annual reports and different other reports on the mentioned units. As these are new banks data is related for FY-2013 and 2014 only. Data has been taken regarding total assets, deposit, loan & advances, total investments, net profit after tax, EPS, ROA, advance-deposit ratio and total liabilities.

Quantitative analysis has been chosen for this study to analyze the data. For growth analysis simple aggregative method of index is used. Besides this here mean and mode is used to calculate the average and highest value respectively. Each calculation is presented through graph which is prepared in MS-EXCEL including the tabulation.

*3.1. Performance Analysis of New Banks*

The evaluation is based on few basic elements which are also very crucial elements in finance. The analysis is given below:

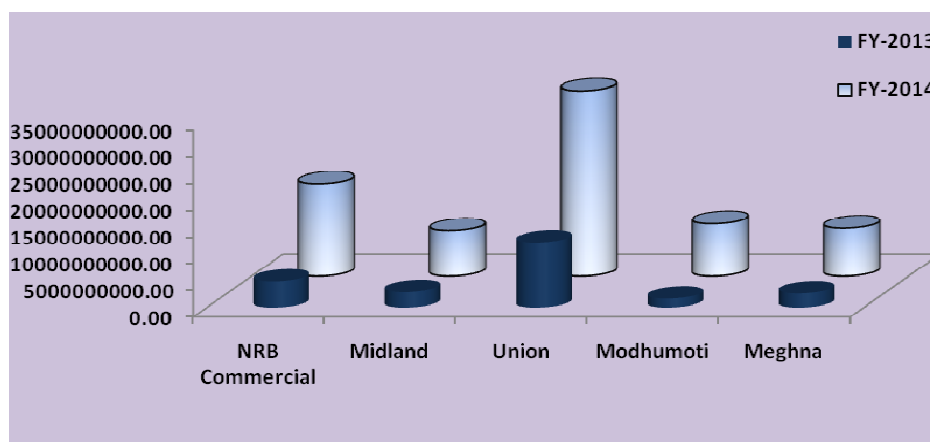
3.1.1. Total Deposit

Deposit is a main source of fund. Deposit is placed in the bank by the customers for ensuring the safety of the money and earning interest.

Bank	FY-2013	FY-2014	Growth in %
NRB Commercial	4909955503.00	17270880701.00	<b>226.00</b>
Midland	2902377253.00	8478577992.00	
Union	12165198711.00	34767309800.00	
Modhumoti	1679697237.00	9838130662.00	
Meghna	2670468329.00	8952703272.00	
Total	24327697033.00	79307602427.00	
Average	4865.54	15861.52	
Mode	12165.20	34767.31	
Bank	Union	Union	

*Table 1: Total Deposit Collection with Growth Rate  
Source: Annual Report of 2013 & 2014 of Respective Banks*

There is a 226% increase in the deposit collection by the banks. As per mode analysis the highest deposit collector is Union Bank both in 2013 & 2014. The average deposit collection is tk. 4865.54 million in 2013 & tk. 15861.52 million in 2014 respectively.



*Figure 1: Total Deposit Collection  
Source: Annual Report of 2013 & 2014 of Respective Banks*

### 3.1.2. Loan & Advances

The main business of bank runs on the providing loan and advances to the customer in cash credit or overdraft form. In this way banks act as intermediary between surplus and deficit unit. Other activity also includes bill purchased & discounted.

Bank	FY-2013	FY-2014	Growth in %
NRB Commercial	3717145445.00	14412251270.00	<b>320.61</b>
Midland	1831431854.00	6499978334.00	
Union	7308820728.00	28277787234.00	
Modhumoti	34712440.00	4130896469.00	
Meghna	1494856337.00	7192032212.00	
Total	14386966804.00	60512945519.00	
Average	2877.39	12102.59	
Mode	7308.82	28277.79	
Bank	Union	Union	

Table 2: Total Loan & Advances with Growth Rate  
Source: Annual Report of 2013 & 2014 of Respective Banks

There is a 320.61% growth on loan and advances from 2013 to 2014. The average loan collection is tk. 2877.39 million in 2013 and tk. 12102.59 million in 2014. The highest loan provider among these banks is Union Bank in both years.

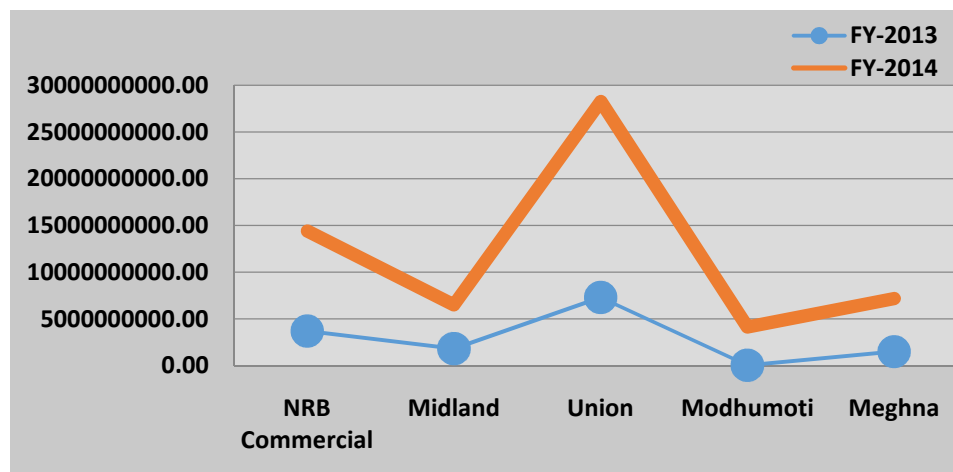


Figure 2: Loan & Advances Distribution  
Source: Annual Report of 2013 & 2014 of Respective Banks

### 3.1.3. Total Investments

Banks also invest in different kinds of short and long-term securities of govt. and corporations besides providing loan.

Bank	FY-2013	FY-2014	Growth in %
NRB Commercial	643244539.00	5669758212.00	<b>838.75</b>
Midland	521208973.00	2985905067.00	
Union	330484738.00	1440040651.00	
Modhumoti	129129477.00	6954975128.00	
Meghna	476723320.00	2670461890.00	
Total	2100791047.00	19721140948.00	
Average	420.16	3944.23	
Mode	643.24	6954.98	
Bank	NRB Commercial	Modhumoti	

Table 3: Total Investments with Growth Rate  
Source: Annual Report of 2013 & 2014 of Respective Banks

After the establishment within 1 to 2 years these new banks achieve a surprising growth of 838.75%. This indicates that the economic condition is very favorable for these banks to being operated. The average investment is tk. 420.16 million and tk. 3944.23 million in 2013 & 2014 respectively. The highest investor is NRB Commercial Bank & Modhumoti Bank in 2013 & 2014 respectively.

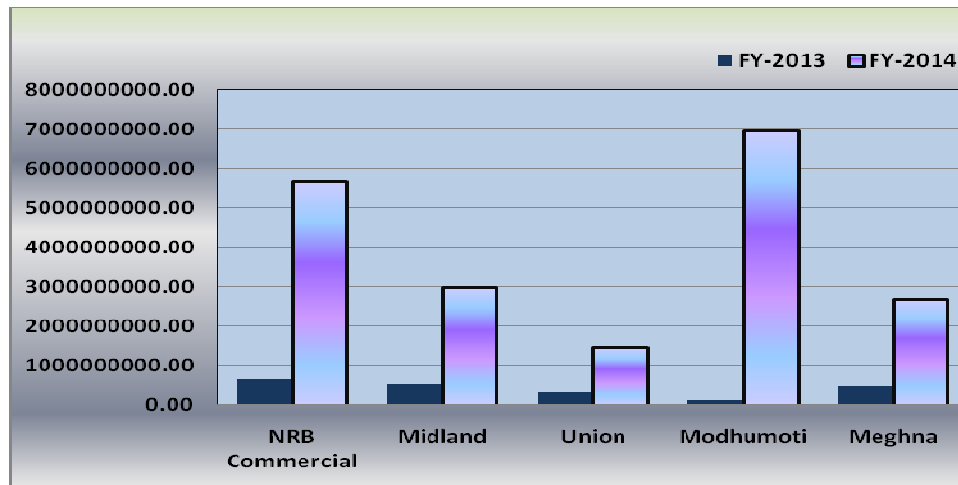


Figure 3: Total Investments  
Source: Annual Report of 2013 & 2014 of Respective Banks

**3.1.4. Advance-Deposit Ratio**

It is a ratio between given loan on collected deposit. It focuses how bank operates its business and earn profit.

Bank	FY-2013	FY-2014	Growth in %
NRB Commercial	72.81%	76.83%	<b>40.58</b>
Midland	63.10%	76.66%	
Union	60.08%	81.33%	
Modhumoti	2.07%	41.99%	
Meghna	55.98%	80.33%	
Total	254.04%	357.14%	
Average	<b>50.81%</b>	<b>71.43%</b>	
Mode	<b>72.81%</b>	<b>81.33%</b>	
Bank	<b>NRB Commercial</b>	<b>Union</b>	

Table 4: Advance-Deposit Ratio with Growth Rate  
Source: Annual Report of 2013 & 2014 of Respective Banks

There is a 40.58% growth in this ratio compare to previous year. The highest ratio achiever is NRB Bank in 2013 & Union Bank in 2014. The average growth is 50.81% & 71.43% in 2013 & 2014 respectively.

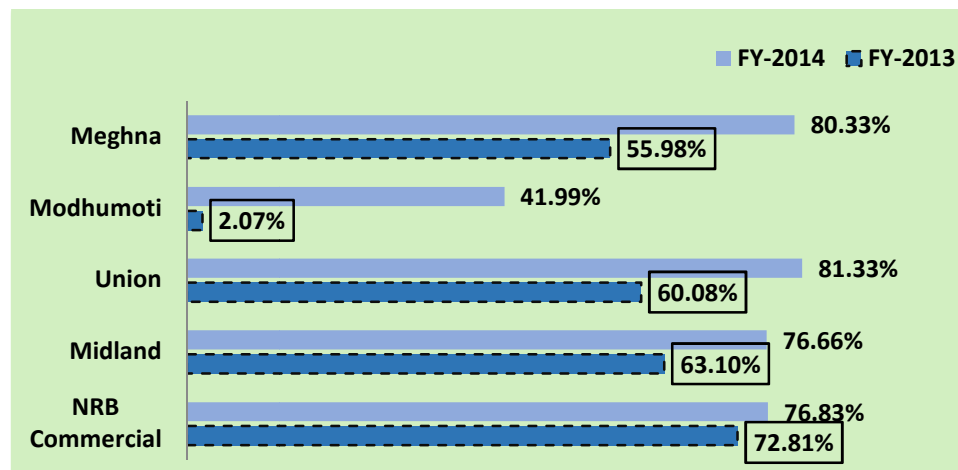


Figure 4: Advance-Deposit Ratio  
Source: Annual Report of 2013 & 2014 of Respective Banks

**3.1.5. Total Profit before Tax**

This is a major parameter to measure financial strength of a bank. Each year the profit has increased due to increase in business operation.

Bank	FY-2013	FY-2014	Growth in %
NRB Commercial	3831256.00	183631171.00	184.06
Midland	36404838.00	158737698.00	
Union	167342913.00	210551581.00	
Modhumoti	113104431.00	497700662.00	
Meghna	92217005.00	122279420.00	
Total	412900443.00	1172900532.00	
Average	82.58	234.58	
Mode	167.34	497.70	
Bank	Union	Modhumoti	

Table 5: Total Profit before Tax with Growth Rate  
Source: Annual Report of 2013 & 2014 of Respective Banks

The growth in overall profit is 184.06% from 2013 to 2014 of these banks. The average profit is tk. 82.58 million in 2013 and tk. 234.58 million in 2014. The highest total profit earner bank is Union Bank in 2013 & Modhumoti Bank in 2014 respectively.

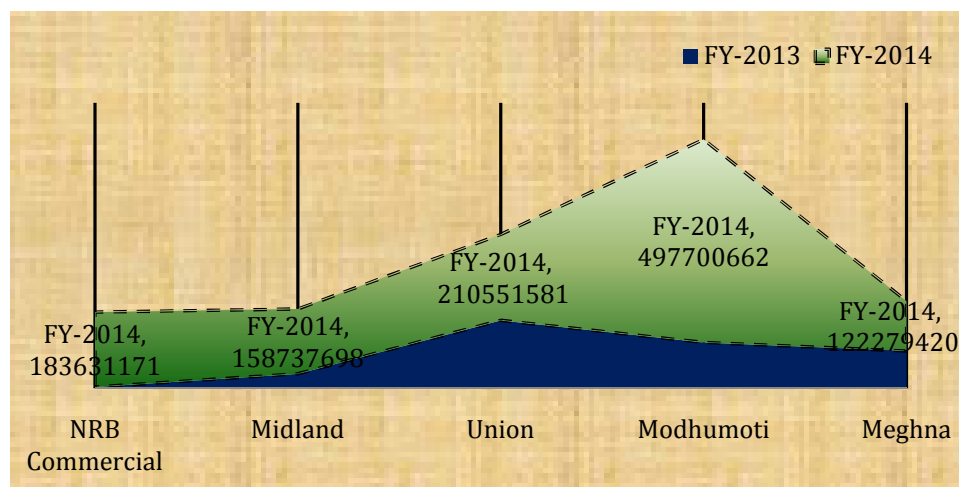


Figure 5: Total Profit/ Loss before Tax  
Source: Annual Report of 2013 & 2014 of Respective Banks

### 3.1.6. Net Profit after Tax

This is an actual indicator of performance measurement which is measured by deducting taxes. The sustainability of any business depends upon earning profit.

Bank	FY-2013	FY-2014	Growth in %
NRB Commercial	22028397.00	78496000.00	158.98
Midland	10791750.00	34674200.00	
Union	87342913.00	110551581.00	
Modhumoti	56910293.00	306298541.00	
Meghna	31977778.00	11387870.00	
Total	209051131.00	541408192.00	
Average	41.81	108.28	
Mode	87.34	306.30	
Bank	Union	Modhumoti	

Table 6: Net Profit after Tax with Growth Rate  
Source: Annual Report of 2013 & 2014 of Respective Banks

The significant achievement for these new banks is to earn 158.98% growth on net profit after tax. The average profit is tk. 41.81 million & tk. 108.28 million in respect of 2013 & 2014. The highest net profit after tax is NRB Commercial Bank & Modhumoti Bank in 2013 & 2014 respectively.

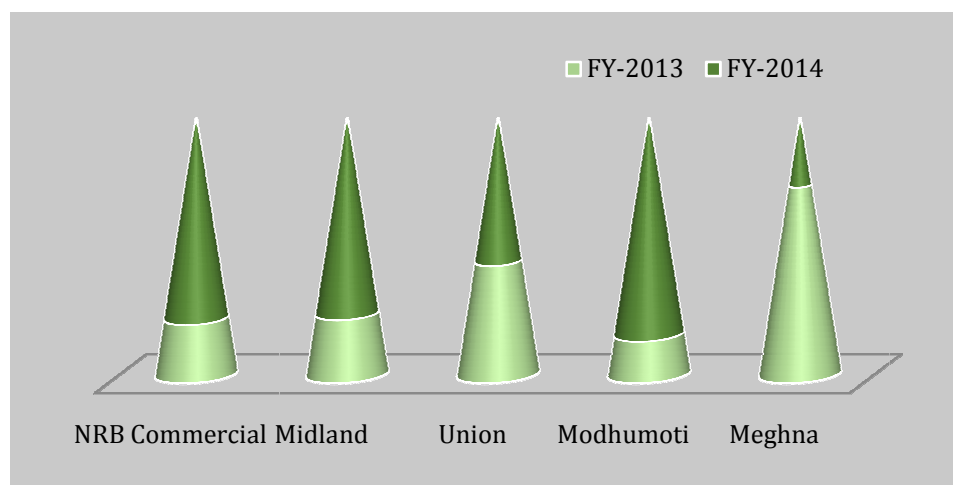


Figure 6: Net Profit after Tax

Source: Annual Report of 2013 & 2014 of Respective Banks

3.1.7. Total Assets

Assets mean any item having an exchange value. Assets only indicate long term assets but also short-term assets. Literally the company achieves growth when its assets increase.

Bank	FY-2013	FY-2014	Growth in %
NRB Commercial	9537592672.00	24848112795.00	<b>873.99</b>
Midland	7531869630.00	15106748970.00	
Union	17081141242.00	409515429467.00	
Modhumoti	7883800713.00	16375015081.00	
Meghna	7208093931.00	13770314696.00	
Total	49242498188.00	479615621009.00	
Average	9848.50	95923.12	
Mode	17081.14	409515.43	
Bank	Union	Union	

Table 7: Total Assets with Growth Rate

Source: Annual Report of 2013 & 2014 of Respective Banks

As newly tor is established banks there is an 873.99% increase in the total assets. Among these five banks the highest amount of asset allocator is Union Bank in the first and second year. The average asset collection is tk. 9848.50 million in 2013 & tk. 95923.12 million in 2014.

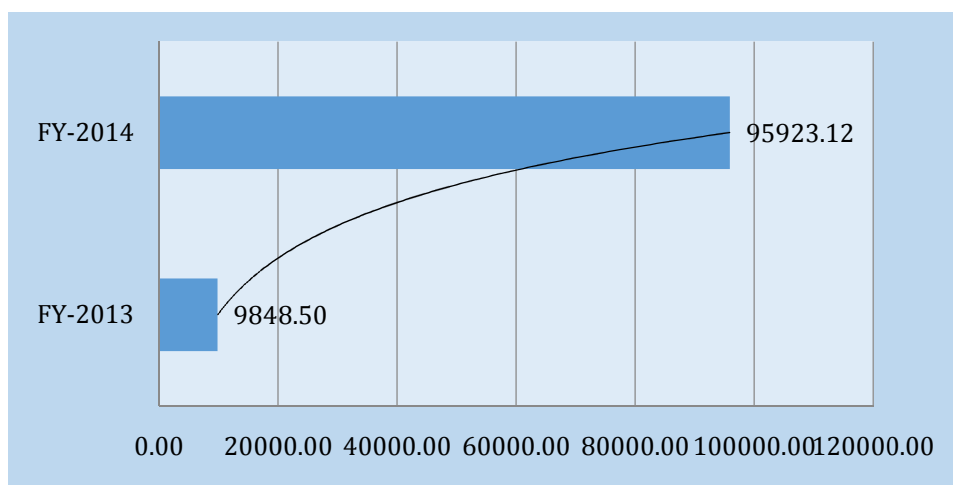


Figure 7: Average Assets Allocation

Source: Annual Report of 2013 & 2014 of Respective Banks

### 3.1.8. ROA (Return on Asset)

ROA measures net earning on each unit assets. It measures the effectiveness of management.

Bank	FY-2013	FY-2014	Growth in %
NRB Commercial	0.28%	0.46%	<b>47.10</b>
Midland	0.14%	0.23%	
Union	1.44%	1.11%	
Modhumoti	0.72%	2.53%	
Meghna	0.44%	0.11%	
Total	3.02%	4.44%	
Average	0.60%	0.89%	
Mode	1.44%	2.53%	
Bank	Union	Modhumoti	

Table 8: Return on Asset with Growth Rate

Source: Annual Report of 2013 & 2014 of Respective Banks

The growth is positive; i.e. 47.10% in terms of ROA. The average ROA is tk. 0.60 and tk. 0.89 in 2013 & 2014 respectively. The highest ROA earning banks is Union Bank in 2013 and Modhumoti Bank in 2014.

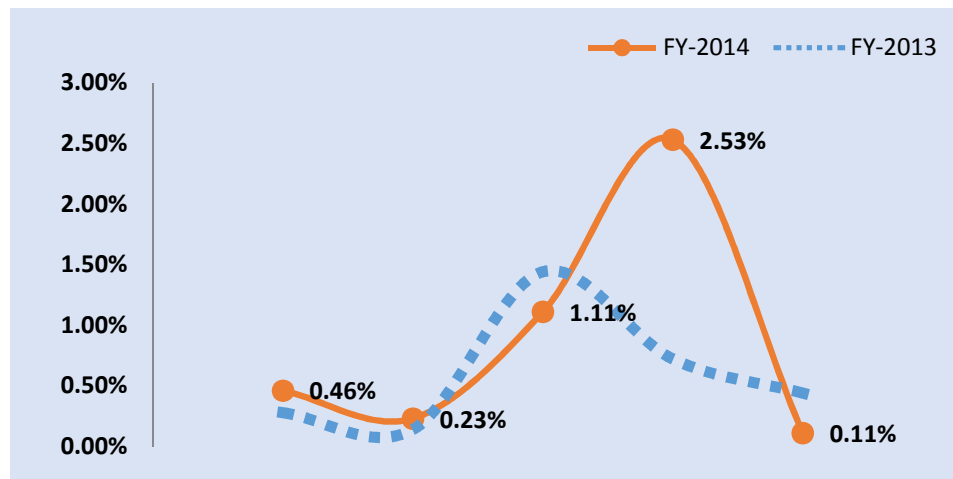


Figure 8: ROA

Source: Annual Report of 2013 & 2014 of Respective Banks

### 3.1.9. Total Liabilities

Total liabilities includes borrowing from other banks or financial institutions, deposit & other accounts as well as other liabilities.

Bank	FY-2013	FY-2014	Change in %
NRB Commercial	5138406976.00	20266545406.00	<b>26.72</b>
Midland	3509164797.00	11058024990.00	
Union	36327885308.00	12568048664.00	
Modhumoti	3306301563.00	11474734948.00	
Meghna	2742582502.00	9292758219.00	
Total	51024341146.00	64660112227.00	
Average	10204.87	12932.02	
Mode	36327.89	20266.55	
Bank	Union	NRB Commercial	

Table 9: Total Liabilities with Growth Rate

Source: Annual Report of 2013 & 2014 of Respective Banks

Union Bank had highest liability in 2013 & NRB Commercial Bank had highest liability in 2014 among the banks. There is a 26.72% increase in liabilities from 2013 to 2014. This indicates that the business has operated largely than previous year. For this reason liabilities has increased. The average liability is tk. 10204.87 million & tk. 12932.02 million in 2013 & 2014 respectively. But the liability has increased less than the growth of these banks.

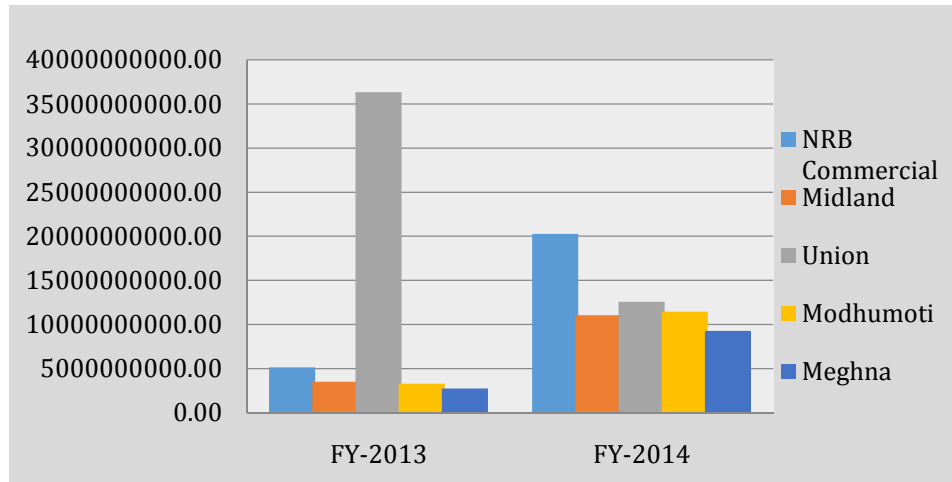


Figure 9: Total Liabilities  
Source: Annual Report of 2013 & 2014 of Respective Banks

3.1.10. EPS (Earning per Share)

EPS indicates return on share per unit basis. Investors take investment decision by analysing EPS. The higher the EPS the significant the growth.

Bank	FY-2013	FY-2014	Growth in %
NRB Commercial	0.05	0.18	<b>145.44</b>
Midland	0.054	0.087	
Union	0.20	0.26	
Modhumoti	0.13	0.68	
Meghna	0.07	0.03	
Total	0.50	1.24	
Average	<b>0.10</b>	<b>0.25</b>	
Mode	<b>0.20</b>	<b>0.68</b>	
Bank	<b>Union</b>	<b>Modhumoti</b>	

Table 10: Earning per Share with Growth Rate  
Source: Annual Report of 2013 & 2014 of Respective Banks

The growth is 145.44% in 2014 from 2013. The highest EPS achiever bank is Union Bank and Modhumoti Bank in 2013 & 2014 respectively. The average EPS is tk. 0.10 in 2013 and tk. 0.25 in 2014.

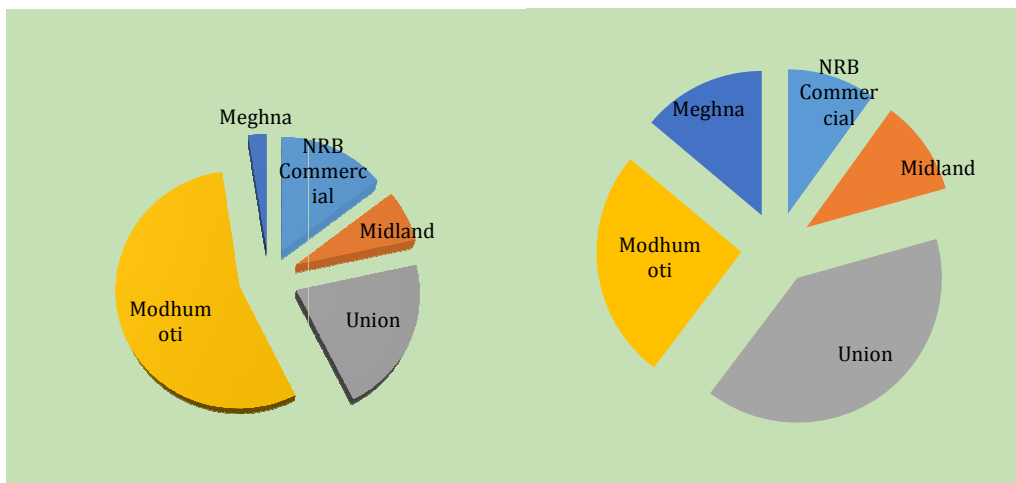


Figure 10.1: EPS in 2013      Figure 10.2: EPS in 2014  
Source: Annual Report of 2013 & 2014 of Respective Banks



**3.1.11. Debt Ratio**

This ratio indicates the degree of leverage for a company. The total short and long term liabilities are divided by the total short and long term assets which shows the ability of a company to withstand losses without impairing the interest of creditors. The higher the debt ratio the greater the possibility of being bankrupt.

Banks	FY-2013	FY-2014	Change in %
NRB Commercial	0.54	0.82	<b>-24.86</b>
Midland	0.47	0.73	
Union	2.13	0.03	
Modhumoti	0.42	0.70	
Meghna	0.38	0.67	
Total	3.93	2.95	
<b>Average</b>	<b>0.79</b>	<b>0.59</b>	
<b>Mode</b>	<b>2.13</b>	<b>0.82</b>	
<b>Bank</b>	<b>Union</b>	<b>NRB Commercial</b>	

Table 11: Debt Ratio with Growth Rate

Source: Annual Report of 2013 & 2014 of Respective Banks

The average ratio is 0.79 and 0.59 in 2013 & 2014 respectively. This ratio is greatest for Union Bank in 2013 and NRB Commercial Bank in 2014. The change is -24.86% from 2013 to 2014.

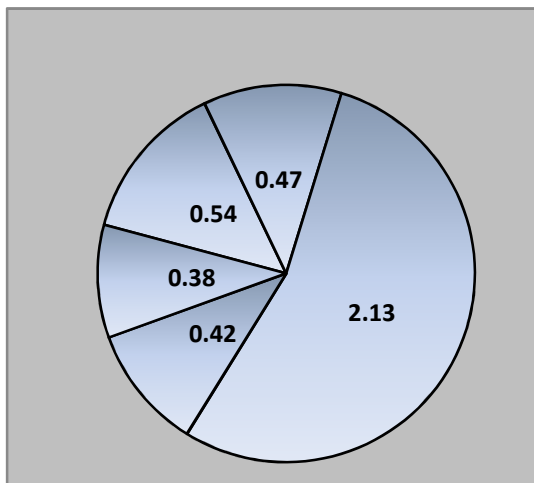


Figure 11.1: Debt Ratio in 2013

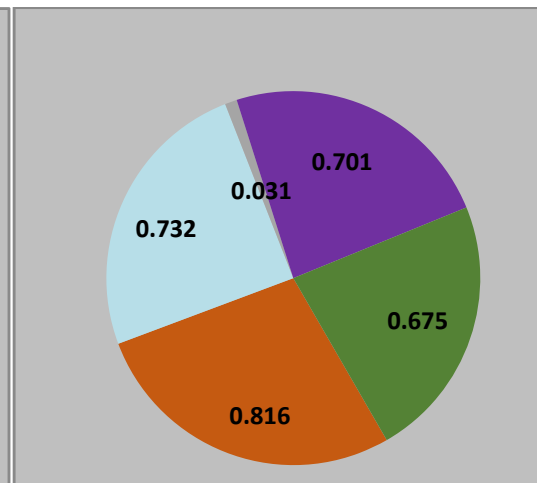


Figure 11.2: Debt Ratio in 2014

Source: Annual Report of 2013 & 2014 of Respective Banks

**3.2. Critical Analysis**

This part of the study is derived from the overall findings. For growth measurement here simple analysis has been done. A simple way to reach the conclusion is that there is a positive relationship among these variables and growth. As the variable increases growth is achieved. Overall each bank has reached growth after the first year. In most of the analysis it is found that Union has earned highest growth, then Modhumoti Bank and last of all NRB Commercial Bank. These three (3) banks performed better among these five (5) banks. Union Bank has achieved growth in terms of total deposit, total assets, loan & advances, net profit after tax, EPS, ROA and advance deposit ratio from starting year to second year. These growths indicate that this bank is very efficient in operating general business and reaching profitability. Modhumoti Bank has reached growth in case of total investment, net profit after tax, EPS and ROA; i.e. this bank has efficiency to run business and earning profit. NRB Commercial Bank has gained growth in respect of total investment and advance deposit ratio. NRB bank is good in general business operation than to earn profit.

Each bank's total Liabilities have increased due to business expansion. In case of debt-equity ratio the ratio has increased from previous year to 2014 except Union Bank. But the increment is within 1 which shows the concern of the banks about their repayment ability. It is very impressive that Union Bank has strengthened their financial position by reducing ratio into 0.03 along increasing the assets in 2014.

So it can be said that the economic condition is stimulative for running business in Bangladesh as well as the banks have sound knowledge for banking operation also.

### 3.3. Limitations of the Study

This research is based on secondary data only. The accuracy of this research depends upon the reliability and validity of secondary data. This analysis is based on two (2) years data only. This analysis could be more interesting if more than two (2) years data is taken. The research could be more perfect if interviewing bank personnel and experienced analyst besides using secondary data.

### 4. Recommendation & Conclusion

These banks are running only for the last few years. Strong financial performance can achieve only if the drawbacks can eliminate from the starting. These banks need to focus establishing branches in the rural areas for bringing the unbanked people under banking network. From the very beginning these banks should be very careful about processing and recovering the loan. The management should cautious about cut the unnecessary expenses. By recruiting and selecting efficient manpower these banks can provide qualitative service to the customers. Besides these the banks can increase the healthy competition among them. Strong monitoring and supervision are also needed to reach the goal. The smooth and efficient operation of banking sector helps to develop the economy. Therefore, the good economic condition needs for growth of new established banks. Here the researcher uses some general parameter to determine the growth analysis of these banks. This analysis can be helpful for the policy maker to judge the rationality of establish new banks in Bangladesh.

### 5. References

- i. Brigham, E.F., & Houston, J.F. (2011). *Fundamentals of Financial Management*. (10<sup>th</sup> Ed.). Ohio, USA: Thomson South Western
- ii. Khan, A R. *Bank Management*. Ruby publications, Dhaka, P. 290, 2008.
- iii. Pandey I. M. (2004). "Financial Statement Analysis". *Financial Management*, (9th edition). New Delhi, India: Vikas, pp. 517-558.
- iv. Rose, Peter S. *Commercial Bank Management*. McGraw-Hill, New York, P. 21, 2005.
- v. Weygandt, Jerry J., Kimmel, Paul D. & Kieso, Donald E. (2011-2012). "Financial Statement Analysis". *Accounting Principles*, (9<sup>th</sup> Edition). John Willy & Sons, Inc. USA, pp. 807-808.
- vi. Ahmed, F. (1995). "Performance of Commercial Banks in Bangladesh-A Note on Current trends". *Journal of the Institute of Bankers, Bangladesh*. Vol. 36 -41, December 1992-June 1995.
- vii. Bhatt, P.R. & Ghosh, R. (1992). "Profitability of Commercial Banks in India". *Indian Journal of Economics*, 14-27.
- viii. Choudhury, Toufic A. 2004. "Private Banking in Bangladesh". *Bangladesh Institute of Bank Management*. (Mime)
- ix. Chowdhury, T. A., & Ahmed, K. (2009). "Performance Evaluation of Selected Commercial Banks in Bangladesh". *International Journal of Business and Management*, 4(4), 86-97.
- x. Chowdhury, H. A., & Islam, M. S. (2007), "Interest sensitivity of loans and advances: A competitive study between nationalized commercial banks and specialized commercial banks", *ASA University review*, 1(1), 124-141.
- xi. Siddique, S. H., and Islam, A. F. M. M. (2001). "Banking Sector in Bangladesh: Its Contribution and Performance". *Journal of Business Research*, Jahangirnagar University, Vol. 3.
- xii. Online access for Annual Report (2013-14) at [http://www.meghnabank.com.bd/mbl/reports/mbl\\_annual\\_report\\_2014.pdf](http://www.meghnabank.com.bd/mbl/reports/mbl_annual_report_2014.pdf)
- xiii. Online access for Annual Report (2013-14) at [http://midlandbankbd.net/assets/files/Annual\\_Report\\_2014.pdf](http://midlandbankbd.net/assets/files/Annual_Report_2014.pdf)
- xiv. Online access for Annual Report (2013-14) at [http://www.modhumotibankltd.com/wpcontent/uploads/2014/05/MMBL\\_Annual\\_Report-2014.pdf](http://www.modhumotibankltd.com/wpcontent/uploads/2014/05/MMBL_Annual_Report-2014.pdf)
- xv. Online access for Annual Report (2013-14) at <http://www.nrbcommercialbank.com/report/NRBC%20Bank%20Annual%20Report%20%202014.pdf>
- xvi. Online access at <http://nrbglobalbank.com/corporate-information/about-us/>
- xvii. Online access for Annual Report (2013-14) at [https://www.unionbank.com.bd/pdf/financial/financial\\_statements\\_for\\_the\\_year\\_of\\_31\\_december\\_2014.pdf](https://www.unionbank.com.bd/pdf/financial/financial_statements_for_the_year_of_31_december_2014.pdf)
- xviii. Online access at <http://bdnews24.com/economy/2013/02/05/5-new-banks-licensed>
- xix. Online access at <http://career-in-bangladesh.blogspot.com/2012/04/bangladesh-bank-approves-6-new-private.html#.VumFI9J961s>
- xx. Online access at <http://www.thedailystar.net/news-detail-228977>
- xxi. Online access at [http://print.thefinancialexpress-bd.com/old/more.php?news\\_id=126069&date=2012-04-09](http://print.thefinancialexpress-bd.com/old/more.php?news_id=126069&date=2012-04-09)