



**A Report on Banking Sector of Bangladesh**

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## **Executive Summary**

The report attempted to highlight the prospects and opportunities of banking sector in Bangladesh. Like other economic sector in the country, banking is one of major sectors which contribute to the nation economy. The report tried to furnish the overview of the performances of banking sector and also find out the comparison among the various categories of banks with respect to the profitability. Finally, the report tried to establish the linear relationship among the various variables and net profit of the banking sector.

The banking sector of Bangladesh comprises of four categories of scheduled banks. These are Nationalized Commercial Banks (NCBs), Government owned Development Finance Institutions (DFIs), Private Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs). The number of banks remained unchanged at 55 in 2013. These banks had a total number of 6562 branches (Bangladesh Bank, 2013).

Access to banking services for the population has improved during the last three decades. While population per branch was 57,700 in 1972, it was 19,800 in 1991. In 2001 it again rose to 21,300, due to winding up of a number of branches and growth in population. Compared to India's 15,000 persons per branch in 2000, Bangladesh is not far behind in this regard. This indicates that access to the banking system in the country is not a significant problem (BBS, 2003).

## 1. Introduction

Banking sector of Bangladesh is one of the major sectors, which contributes significantly to the national economy. The sector comprises a number of banks in various categories. Considering ownership the sector can be classified in to four major categories - such as Nationalized Commercial Banks (NCBs), Specialized Banks (SPBs), Private Commercial Banks (PCBs), and Trans-National Banks (TNBs) (Islam, 2001).

The commercial banking system put on vital role in Bangladesh's financial sector. Bangladesh Bank is the Central Bank of Bangladesh and the principal regulator of the sector. Bangladesh have total of 55 states owned, private, foreign and specialize Banks. The banking system consists of four state-owned commercial banks, 31 private commercial banks, 10 specialized development banks, and 10 foreign commercial banks.

The Nobel Prize for Grameen Bank is a specialized micro-finance institution, the concept of microcredit revolution and a major contribution to poverty alleviation and empowerment of women in Bangladesh. Structure of the banking sector by the type of banks is shown in table 1 below:

<b>Banking System Structure (Billion Taka)</b>						
<b>Bank Types</b>	<b>Number of Banks</b>	<b>Number of Branches</b>	<b>Total Assets</b>	<b>% of Assets</b>	<b>Deposits</b>	<b>% of Deposit</b>
National Commercial Bank	4	3384	786	32.7	654.1	35.2
Government owned Development	10	1354	187.2	7.8	100.2	5.4

Finance Institutions						
Private commercial Banks	31	1776	1147.8	47.7	955.5	51.3
Foreign Commercial Banks	10	48	284.9	11.8	150.8	8.1
<b>Total</b>	<b>55</b>	<b>6562</b>	<b>2406.7</b>	<b>100.0</b>	<b>1860.6</b>	<b>100.0</b>

Source: Bangladesh Bank, 2006 and 2013.

## 2. Historical Background

After the independence, banking industry in Bangladesh started its journey with 6 nationalized commercialized banks, 2 state owned specialized banks and 3 foreign Banks. In the 1980s banking industry achieved significant expansion with the entrance of private banks. Now, banking sector in Bangladesh is primarily of two types:

A). Schedule Bank

B). Non-schedule Bank

**A). Scheduled Bank:** The banks which get license to operate under Bank Company Act, 1991 (Amended in 2003) are termed as Scheduled Bank. State-owned commercial banks, private commercial banks, Islamic commercial banks, foreign commercial banks and some specialized banks are Scheduled Bank.

**B). Non-Scheduled Bank:** The banks which are established for special and definite objective and operate under the acts that are enacted for meeting up those objectives are termed as Non-Scheduled Bank. These banks cannot perform all functions as like as scheduled banks. Grameen Bank, Probashi



Kallyan Bank, Karmasangsthan Bank, Progoti Co-operative Land Development Bank Limited (progoti Bank) and Answer VDP Unnayan Bank are Non-Scheduled Bank.

### 3. List of Banks in Bangladesh:

There are 5 types of Banks in Bangladesh. These are:

- A) Central Bank
- B) State- owned Commercial Banks
- C) Private Commercial Banks
- D) Foreign Commercial Banks
- E) Specialized Development Banks

#### A). Central Bank:

Bangladesh Bank

#### B). State-owned Commercial Banks:

- ① Sonali Bank Limited
- ② Rupali Bank Limited
- ③ Agroni Bank Limited
- ④ Janota Bank Limited

#### C). Private Commercial Banks:

- ① United commercial Bank Limited
- ② Mutual Trust Bank Limited
- ③ BRAC Bank Limited



- ④ Eastern Bank Limited
- ⑤ Dutch Bangla Bank Limited
- ⑥ Dhaka Bank limited
- ⑦ Islami Bank Bangladesh Limited
- ⑧ Uttara Bank Limited
- ⑨ Pubali Bank Limited
- ⑩ IFIC Bank Limited
- ⑪ National Bank Limited
- ⑫ The City Bank Limited
- ⑬ NCC Bank Limited
- ⑭ Prime Bank Limited
- ⑮ Southeast Bank Limited
- ⑯ Al-Arafah Islami Bank Limited
- ⑰ Social Islami Bank Limited
- ⑱ Standard Bank Limited
- ⑲ One Bank Limited
- ⑳ Exim Bank Limited
- 21 Bangladesh Commerce Bank Limited
- 22 First Security Islami Bank Limited
- 23 The Premier Bank Limited
- 24 Bank Asia Limited
- 25 Trust Bank Limited
- 26 Shahjalal Islami Bank Limited
- 27 Jamuna Bank Limited



- 28 ICB Islami Bank
- 29 AB Bank
- 30 AB Bank
- 31 Marcantile Bank Limited

**D). Foreign Commercial Banks:**

- ① Citibank
- ② HSBC
- ③ Standard Chartered Bank
- ④ Commercial Bank of Ceylon
- ⑤ State Bank of India
- ⑥ Habib Bank Limited
- ⑦ National Bank of Pakistan
- ⑧ Woori Bank
- ⑨ Bank Alfalah
- ⑩ ICICI Bank

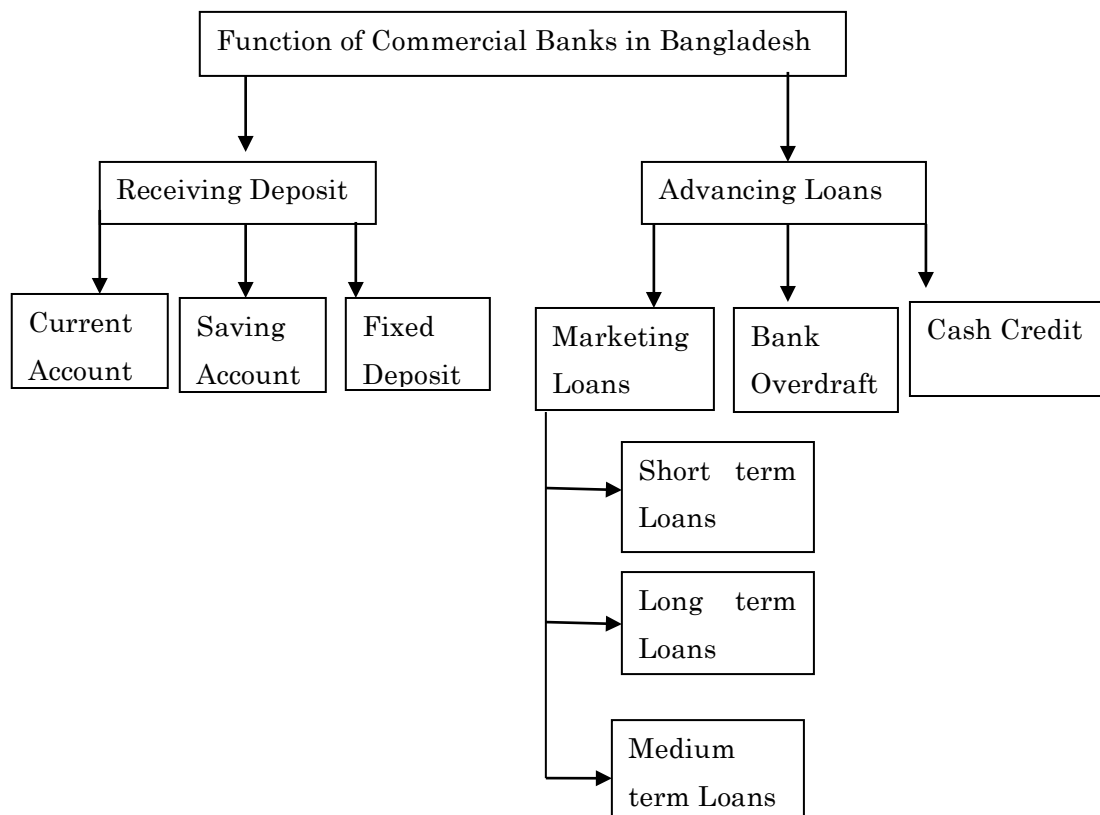
**E). Specialized Development Banks:**

- ① Bangladeshi Krishi Bank
- ② Rajshahi Krishi Unnayan Bank
- ③ Progoti Co-operative Land Mortgage Bank Limited
- ④ Grameen Bank
- ⑤ The Dhaka Mercantile Co-operative Bank Limited (DMCBL)
- ⑥ Bangladesh Development Bank Limited



- ⑦ Bangladesh Somobay Bank Limited (Cooperative Bank)
- ⑧ Ansar VDP Unnyan Bank
- ⑨ Basic Bank Limited
- ⑩ Karmasangstan Bank

#### 4. Function of Commercial Banks of Bangladesh



*Figure: Function of commercial bank of Bangladesh*

#### 5. Islamic Banking

Alongside the conventional interest bearing banking system, Bangladesh entered into an Islamic banking system (profit-loss sharing) in 1983. At present, out of 48 banks in Bangladesh, 6 private commercial banks are operating as full-fledged Islamic banks and 10 conventional banks are

partially involved in Islamic banking in a total of 21 branches. The Islamic banking industry continued to show strong growth since its inception in 1983 to June 2007 in tandem with the growth in the economy, as reflected by the increased market share of the Islamic banking industry in terms of assets, financing and deposits of the total banking system. The entire picture is given at Table 2. Total deposits of the Islamic banks and Islamic banking branches of the conventional banks stood at Taka 286.5 billion at end June 2007. This was 23.6 percent of the deposits of all private commercial banks and 14.3 percent of the deposits of the total banking system at the end of June 2007. Total investment of the Islamic banks and the Islamic banking branches of the conventional banks stood at Taka 265.4 billion at end June 2007. This was 26.9 percent of all private banks and 17.2 percent of the total banking system of the country (Bangladesh Economic Review, 2010).

**Table: 2. Comparative position of the Islamic Banking Sector**

Particulars	Islamic banks	Islamic Banking Branches	Private Commercial Banks	All Banks
Number of Banks	5	10	30	48
Number of Branches	330	21	1854	6596
Number of Employees	12109	390	38426	99287
Deposits	263.1	23.4	1214.6	2005.8
Investments (Credits)	249.6	15.8	987.7	1541.9

*Source: Research Department of Bangladesh Bank, 2013.*

## **6. Contribution of Commercial Bank in Bangladesh**

- Banks promote capital formation
- Investment in new enterprises
- Promotion of trade and industry
- Development of agriculture
- Balance development of different savings
- Influencing the economy activity
- Implementation of monetary policy
- Export promotion cells

## **7. Expansion of Bank Branches of Rural Areas**

The avowed strategy of government in promoting financial inclusion has witnessed little realization as private and foreign banks have made hardly any progress in setting branches in remote and rural areas of the country though they control almost 75 per cent of the banking sector. For example, between February 2008 and December 2012 the percentage of branches of bank in rural areas decreased from 57.94 to 57.20 percent, whereas the share of branches of bank in urban areas increased from 42.06 to 42.80 percent. Disparity also exists between the level of commitment of state owned commercial banks and that of private and foreign commercial banks. As of December 2012, for example, 63.97percent branches of state owned commercial banks were located in rural areas, as opposed to only 38.08 percent branches of private commercial banks. The foreign banks have yet to establish any branch in rural areas as of December 2012 (Bangladesh Economic Review, 2013).

## **8. Problem of the Banking Sector of Bangladesh**

Problem of banking sector is widespread and is not related to banking system only. The regulatory entity should be independent but accountable. Prudential regulation should be limited to deposit-taking institutions and should be clearly separated from non-prudential regulation.

The problem of lower profitability of bank is that it might reduce the tax and thus make a trace on fiscal system where bank is the number one source of tax under large tax unit of NBR. Moreover, the revenue target may face hurdle from another side where lower growth of credit may affect investment and growth, and thus tax collection.

## **9. Possibilities of the Banking Sector of Bangladesh**

There are huge possibilities of the banking sector in Bangladesh. These are below:

- Banking sector of Bangladesh has a great opportunity to become a major sector of the national economy.
- Bangladesh has huge number of population. This advantage may accelerate expansion and growth of Bangladeshi banking sector.
- Bangladeshi banking sector is very much capable to ensure proper quality of the product services as per requirement of the global market.
- There are ten foreign banks active in Bangladesh, but no Japanese bank yet. So there are huge prospect for Japanese bank to open their branch in Bangladesh.

## **10. Finding and conclusion**

The commercial banks are now considered the nerve system of all economic development in the Bangladesh. Commercial banks are now using latest 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 55 banks to provide its services nationwide. However, all banks do not provide online banking services. Some bank services are so limited (such as only general banking). State owned commercial bank and specialized development bank is not effective for foreign people, because of their services are pending and delay. Private commercial banks are very potential for foreign people. Some private commercial banks are providing one stop services for non- resident Bangladeshi (NRB) which is very effective for foreign people. Such as BRAC Bank, Dutch Bangla Bank, Islami Bank Bangladesh Limited, National Bank Limited etc.

The performance of the banking sector in terms of net profit varies in various groups of bank. The report revealed that in every aspect, TNBs had a commendable performance. But comparing among other groups of banks (NCBs, SPBs, and PCBs) PCBs had preferred achievement aiming profit. On the other hand Specialized Banks in Bangladesh had a very poor performance. This meager activity affected the overall banking sector's performance.

Although liberalization policy has been pursued for long time, the result is still far from the expected 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 facilitated by this avowed policy.

**End**