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Determinants of Financial Performance of Bank Asia Ltd.

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Determinants of Financial Performance of Bank Asia Ltd.

By
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ID: 0820527

An Internship report presented in partial fulfillment
Of the requirement for the degree Bachelor of Business Administration

INDEPENDENT UNIVERSITY, BANGLADESH
APRIL 2012

Determinants of Financial Performance of Bank Asia Ltd.

By
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Has been approved
April 2012

Dr. Nadim Jahangir
Associate professor
School of Business
Independent University, Bangladesh

Letter of transmittal

Date:

Shamil M. Al Islam
The School of Business
Independent University Bangladesh
Bashundhara R/A, Dhaka

Sub: Submission of Internship Report.

Dear Sir,

It gives me great pleasure to submit the report on "Determinants of Financial Performance of Bank Asia Ltd.", which is a partial requirement of my course.

During the service period of my experience, I had a study on "Determinants of Financial Performance of Bank Asia Ltd" and share my ideas on this topic through this report.

I am very grateful to Bank Asia Ltd and you for giving me the opportunity to carry out the study.

Sincerely,

Jannatul Ferdous
ID- 0820527
BBA
Independent University Bangladesh.

Acknowledgement

The successful accomplishment of this project work is the outcome of the contribution of number of people, especially those who have given the time and effort to share their thoughts and suggestions to improve the report. At the beginning, I would like to pay my humble gratitude to the Almighty for giving me the ability to work hard under pressure. However, the space involved does not allow us to mention everybody individually. It gives me immense pleasure to thank a large number of individuals for their cordial cooperation and encouragement who have contributed directly or indirectly in preparing this project.

.

I would like to thank my honorable course instructor “Shamil M. Al Islam” for asking me to prepare this report and for providing me proper guidance to work on this company analysis. It is an opportunity for me to translate into action the directives of my learned instructor and prove my worth in the preparation of the report confidently. I gathered a lot of knowledge and information and practical experience while working on it. I really want to express my heartiest gratitude to him for his valuable advice and time that he gave me, which helped me prepare this company analysis.

I am very grateful to Md. Azharul Islam, Vice President & Manager of Bank Asia Ltd. Shantinager Branch where I completed my internship program and all the employees ofBank Asia, for their hearty co-operation in the learning process about Bank Asia Ltd. General Banking System in particular. I would also convey my thanks to all the employees for their beloved manners and attitudes shown to me during the program.

Last of all I would like to express my thanks to the authors, researchers, article writers whose books and articles I consulted and friends who helped me in every stage of the report by providing valuable information and suggestion in respect of preparing this report.

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Abstract

This paper mainly concentrates on evaluating the major factors that affect the Bank Asia's performance. In order to show the Determinants of commercial banks performance, there are two categories, namely internal and external factors that effects on commercial banks performance. Internal determinants are of statement variables and non-financial statement variables. While financial statement variables relate to the profitability, which are within the control of bank management, can be broadly classified into two categories, i.e. financial decisions which directly involve items in the balance sheet and income statement; nonfinancial statement variables involve factors that have no direct relation to the financial statements.

External factors are those factors that are considered to be beyond the control of the management of a bank.

This study comes to examine and analyze the factors that might affect on the performance of Bank Asia's during the period of 2005 through 2010.

The analysis revealed that there are significant and positive relationship between ROA and Bank size, TL/TA, NIM, TE/TA and negative correlation between ROA and. Annual Growth Rate for GDP, Inflation rate, earning per share and Debt to equity.

Also this study found that there are significant and positive relationship between ROE and Bank size, TL/TA, NIM, TE/TA and negative correlation between ROE and. Annual Growth Rate for GDP, Inflation rate, earning per share and Debt to equity.

Keywords: Bank Asia's performance, Return on Assets, Return on equity, Annual Growth Rate for Gross domestic product, Inflation rate and internal factors.

1.1 Introduction

Banks play essential role within economy due to their depositing and lending operations. Having a role of an intermediary between borrowers and lenders, banks (especially commercial banks) can positively contribute to the health and stability of economy. Commercial banks are institutions which accept deposits, make business loans, and offers related services. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the Federal Reserve System. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses.

Financial performance could be defined as a measure-ment of the results of a firm's polices and operations in monetary terms. In assessing the overall financial condition of a company, the income statement and the balance sheet are important reports, as the income statement captures the company's operating performance and the balance sheet shows its net worth. Financial performance could be assessed using the following key measures which are important to assess the current financial position and performance. These are descriptive and analytical measures of financial position and performance. Descriptive measures include total assets, total liabilities, stockholders equity, total revenues, total expenses and net income. And analytical measures of financial position and performance could include profit-ability, efficiency, liquidity and solvency measures.

Most studies divide the determinants of commercial banks performance into two categories, namely internal and external factors. Internal determinants of profitability, which are within the control of bank management, can be broadly classified into two categories, i.e. financial statement variables and nonfinancial statement variables. While financial statement variables relate to the decisions which directly involve items in the balance sheet and income statement; non-financial statement variables involve factors that have no direct relation to the financial statements. The examples of non-financial variables within the this category are number of branches, status of the branch (e.g. limited or full-service branch, unit branch or multiple branches), location and size of the bank. Number of branches. Haron, Sudin (2004).

External factors are those factors that are considered to be beyond the control of the management of a bank. Among the widely discussed external variables are competition, regulation, concentration, market share, ownership, scarcity of capital, money supply, inflation and size.
I do my research work on financial performance of Bank Asia and try to focus on internal factors of performance of the bank.

1.2 Background of Bank Asia Ltd.

Bank Asia Limited has been launched by a group of successful entrepreneurs with recognized standing of the society. The paid up capital of the Bank is 214.48 crore.
The management of the Bank consists of a team led by senior Bankers with decades of experience in national and international markets. The senior management team is capably supported by a group of professional many of whom have exposure in the international market.

Bank Asia Limited is a scheduled commercial Bank in the private sector established on November 27, 1999 under the Banking Company Act 1991 and incorporated in Bangladesh as a public limited company under the Companies Act 1994. Bank Asia was established by a group of successful entrepreneurs with recognized standing in the society. The management of the Bank consists of a team led by senior bankers with vast experience in national and international markets. Within a short span of time, Bank Asia has established itself as one of the fastest growing local private banks. It has, at present, a network of 44 branches serving many of the leading corporate houses, small and medium enterprises and individuals. In 2001 the bank set a milestone by acquiring the Bangladesh operations of the Bank of Nova Scotia of Canada. Again in 2002 the bank acquired the Bangladesh operations of Muslim Commercial Bank Ltd. (MCBL) of Pakistan. In the year 2003, the bank went public by offering shares to the general investor and in 2004 the Bank listed itself with the stock exchanges.

Meeting the challenges in 2009, Bank Asia maintained progress in its lines of businesses over the position of previous year. Revenue income increased by 30.10 percent while expenses increased by 27.16 percent. The operating profit before provision & tax registered an impressive growth of 37.39 percent during the year and stood at Tk. 2,617.04 million in 2009. Strong profit performance was attributable to its sustained deposits and loan growth, maintaining good asset quality, enhancing productivity and active management of balance sheet. Net profit attributable to shareholders reached Tk.1, 327.18 million marks. The return on average equity was 32.03 percent and Earnings per Share (EPS) stood at Tk. 61.88. The capital adequacy as per Basel 2 of the Bank is 10.01 percent, which is above the stipulated rate of 8 percent. Deposits of the Bank were Tk. 54,838 million during 2009 indicating a growth rate of 29.22 percent. Loans and advances, which are well diversified, have grown by 25.75 percent during the year. In the year, Import & export business increased by 32% and 23% respectively.

The year 2009 is a milestone in the history of Bangladesh's capital market. In the year the number of investors has increased by 500,000 and stood at nearly 2 million while the number of branches of broker houses throughout the country has reached 387 from 272 in 2008. With the aim of diversifying the product line and explore the business opportunities of capital market, in the year 2008, Bank Asia acquired a brokerage house license from Dhaka Stock Exchange in a very competitive bid. Upon establishing infrastructural facilities and having necessary approvals from regulatory body Bank Asia started its brokerage business from 5th August, 2009 with a good trading atmosphere. To support the investors, the capital market the Division provides margin loan facilities to its clients. Being inspired with the initial success of the Capital Market Division in 2009, management of the bank has decided to open more branches of the division. Already our Dhanmondi, Mirpur, & Uttara branches are in operation.

1.3 Mission statement of Bank Asia Ltd

- **T**o assist in bringing high quality service to our customers and to participate in the growth and expansion of our national economy.
- To set high standards of integrity and bring total satisfaction to our clients, shareholders and employees.
- To become the most sought after bank in the country, rendering technology driven innovative services by our dedicated team of professionals.

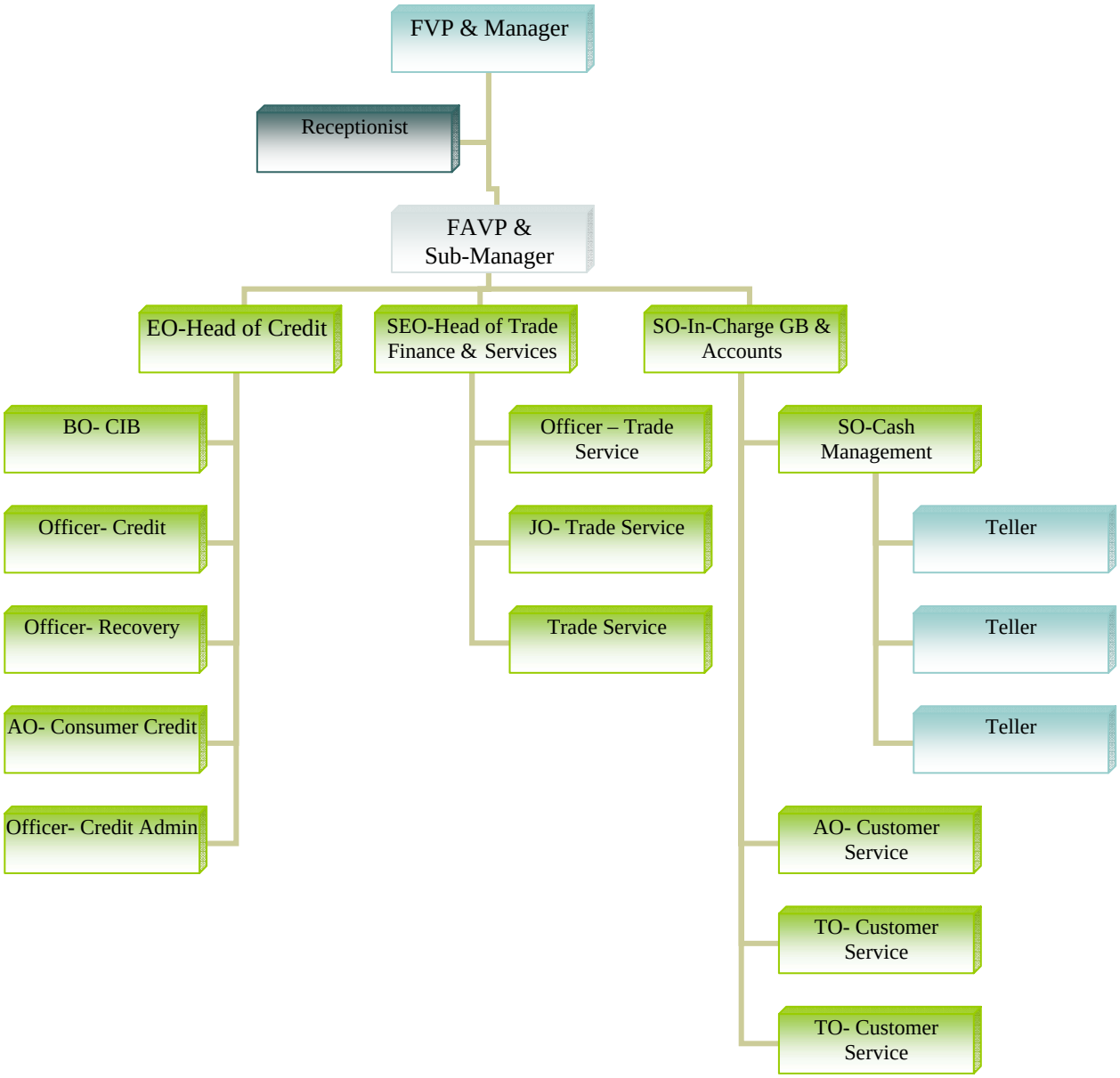
1.4 Vision statement of Bank Asia Ltd

Bank Asia's vision is to have poverty free Bangladesh in course of a generation in the new millennium, reflecting the national dream. Our vision is to build a society where human dignity and human rights receive the highest consideration along with reduction of poverty.

1.5 Products & Services

Bank Asia has on offer a broad array of innovative financial services specially designed to match the specific requirement of the clientele ranging from large corporate houses, small and medium enterprises, to private individuals. The team of professionals assists the clients in finding the most appropriate financing package to help the clients realize their short-term goals and long-term aspirations. Bank Asia offers several products and packages through different banking systems.

1.6 Organizational Hierarchy of Bank Asia Ltd:



2.1 Problem statement

Banking institutions face today a dynamic, fast paced, competitive environment at a global scale. To survive in this competitive market bank should know the facts that drive bank's performance. If bank knows what drives the performance they can take action to improve it.
The themes developed in this research paper will advance our understanding of what is and what drives performance of financial institutions. It is expected that the better understanding of performance and its drivers will lead to managerial practices that improve the performance of this significant sector of economic activity.

Measuring performance in the modern world is a challenging problem. Modern economies are based on production and consumption of increasingly differentiated goods and services. In the case of banking, this increased variety leads to the fragmentation and changing nature of the banking services. In this environment traditional productivity measures are not only extremely difficult to compute, but they also tell us less than they used to.
I have compared Bank Asia's financial performance with other two banks for better under standing. And try to find out the lacking and advantages of Bank Asia Ltd.

BANK ASIA LTD with SOUTHEAST BANK & MUTUAL TRUST BANK

These three banks are third generation bank and strong competitor to one another.
At the very early period banks are differentiated by products and services. But now day's products are not the only weapon for better performance. Bank has to analyze the other facts. Return on asset and return on equity are treated as the determinants of financial performance. Return on asset and return on equity mostly tell us about the performance of any bank. And other factors effect on return on asset and return on equity.

In this study I combined the internal and external facts of the performance. In the external facts I consider annual growth rate for gross domestic product and inflation rate. These two external

facts directly affect the performance and bank can not control these two variables rather bank has to depend on these.

2.2 Purpose of the study

The first and the foremost objective of the report is to fulfill the partial requirement of the internship program. The aim of this study is to determine and analyze the factors that might affect performance in Bank Asia Ltd during the period of 2005 to 2010. This study investigated the impact of banks' characteristics, financial structure and macroeconomic indicators on banks' net interest margins and profitability.

The primary objective of this study is to provide answers to these questions:
1. What are the major performance measures that apply to Bank Asia Ltd?
2. What are the factors that affect the performance in bank?
3. How can the managers of bank reduce the credit risk through enhancing the performance of their firms?

Most of the studies that have used bank profitability and margins, a key performance measures that apply to commercial banks , such as studies which prepared by Coit , Craig, I. and Karr , John , (1997) , Demirguc-Kunt and Huizinga , (1999) , Ben Naceur (2003) , Bikker and Metzemakers, (2004), Davis and Zhu, (2005 , Beckmann, Rainer ,(2007) , Toni Uhomoibhi, (2008) and khrawish *et al* 2011. Also, these studies that have found that higher net interest margins and higher profitability are associated with stronger bank capital base, higher inflation, higher real interest rates and lower reserve requirements.

Many researchers used two measures for performance in commercial banks. These measures include, Return on assets (ROA) and Return on equity (ROE).
Most studies divided the determinants of commercial banks performance into two categories, namely internal and external factors. Finally, the managers of commercial banks can reduced the

credit risk through enhancing the performance of their firms by controlling for macroeconomic conditions. For example, growth policies (as shown by credit expansion and market penetration) and managerial incentives ("gambling for
resurrection") determine future loan losses. Davis and Zhu (2005) and Coit , Craig I , and Karr , John , (1997) .

This study was selected for many reasons:

1. The banking sector in Bangladesh is one of the vital economic sectors, It is contributed on Gross Domestic Product (GDP).
2. There are few studies on the Bank Asia's financial performance.
3. This study attempts to fill the gap of determinants of Bank Asia's financial performance.

2.3 Limitation

In spite of having many limitations, financial ratios were commonly used as non-frontier based measures for measuring the performance of banks for a long period of time. One of the significant limitations of financial ratio is its dependence on yardstick, which can be subjective and ambiguous. In recent years, frontier based methods have been applied for measuring bank performance where firms with high performance are separated from firms with low performance either by using parametric or nonparametric frontier tests. Both non-frontier based measures and frontier based measures are used for estimating the performance of sample commercial banks in this study. Return on assets and non-performing loan to total loans are the two traditional non-frontier based measures, while cost efficiency and income efficiency are used as frontier based measures.

Limitations are:

- Time Constraints.
- Lack of proper informations.
- The required informations were quite scattered and hence to compile it was quite a difficult a task.

2.4 Literature review

The researchers who have studied the effects internal and external factors that might affect on the bank profitability are Demirgüç-Kunt and Huizinga (1999) , Cavallo and Majnoni (2001), Ben Naceur (2003) , Bikker and Metzemakers (2004), Davis and Zhu (2005) and Aburime, Toni Uhomoibhi (2008) .

Samad, Abdus , (2004) , examined the study of Bahrain's Commercial Bank Performances During 1994-2001, The main focus of this study is to examine empirically the performance of Bahrain's commercial banks with respect to credit (loan), liquidity and profitability during the period 1994-2001. Ten financial ratios are selected for measuring credit, liquidity and profitability performances. By applying student's t-test to these financial measures, this paper finds that commercial banks' liquidity performance is not at par with the banking industry. Commercial banks are relatively less profitable and less liquid and, are exposed.

E Philip Davis and Haibin Zhu (2005) , examined the study of Commercial property prices and bank performance during 1989–2002. This paper seeks to fill the gap by undertaking an extensive analysis of a sample of 904 banks worldwide. It is seek to assess the effect of changes in commercial property prices on bank behavior and performance in 15 industrialized economies, the results of this study suggest that commercial property prices tend to be positively associated with bank lending and profitability, and negatively associated with banks’ net interest margin and bad loan ratios. Such an impact exists even when conventional independent variables determining bank performance are included as controls. Further extensions show that the magnitude of this impact is related to the size of the bank, the strength of bank capitalization, the direction of commercial property price movements, and regional factors. The results have implications for risk managers, regulators and monetary policy makers.

There are many researchers have used bank profitability and margins, a key performancemeasurs that apply to commercial banks , such as studies which prepared by Demirgüç-Kunt and Huizinga (1999) , Cavallo and Majnoni (2001), Laeven and Majnoni (2003) , Ben Naceur (2003) , , Davis and Halbin , Bikker and Metzemakers (2004)and Davis and Zhu (2005) .

2.4.1 **Dependent variables:**

Independent and dependent variables of the current study have been determined according to the results reached by previous studies and how far data have been available for measurement purposes. There are two measures used to identify the dependant variables.

1. Return on Assets (ROA):

Return on asset is an Indicator of profitability that is determined by dividing net income for the past 12 months by total average assets. ROA tells what earnings were generated from invested capital (assets). ROA for public companies can vary substantially and will be highly dependent on the industry. This is why when using ROA as a comparative measure, it is best to compare it against a company's previous ROA numbers or the ROA of a similar company.

The assets of the company are comprised of both debt and equity. Both of these types of financing are used to fund the operations of the company. The ROA figure gives investors an idea of how effectively the company is converting the money it has to invest into net income. The higher the ROA number, the better, because the company is earning more money by investing fewer amounts.

Return on assets is the ratio of Net Income after Taxes/Total Assets. The rate of return secured on a bank's total assets indicates the efficiency of its management in generating net income from all of the resources (assets) committed to the institution,Rose ,Peter S. , (2008) , Hempel, G., D. Simonson, and A. Coleman (1994), And Hudgins, Sylvia C. (2006). It is measured by Net income to total assets. It is argued by Demerguç-Kunt and Huizingha (1999), Cavallo and Majnoni (2001), Bashir, Abdel Hamid M. , (2003) . Laeven and Majnoni (2003) , Ben Naceur (2003) , , Davis and Halbin , Bikker and Metzemakers (2004), Davis and Zhu (2005) and Aburime, Toni Uhomoibhi (2008) .

This ratio demonstrates the relationship between net income and total assets. Selecting this measure is attributed to the fact that using net income for funding purposes within the financing

structure constitutes an incentive and target for many companies to increase their return on investment. Meanwhile, the capital structure policy involves venture and returns trade-off simply because using debt extensively increases the risks faced by the banking, but amplifies total invested funds and expected return.

2. Return on Equity (ROE) :

One of the most important profitability metrics is return on equity (or ROE for short). Return on equity reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better. ROE shows how well a company uses investment funds to generate earnings growth.

Return on equity capital is the ratio of Net Income After Taxes/Total Equity Capital. It represents the rate of return earned on the funds invested in the bank by its stockholders. Nonbank financial firms have stockholders, too who are interested in the return on the funds that they invested, Rose, Peter S. And Hudgins,Sylvia C. (2006).

It is measured by Demerguç-Kunt and Huizingha (1999), Cavallo and Majnoni (2001), Bashir, Abdel Hamid M. , (2003) . Laeven and Majnoni (2003) , Ben Naceur (2003) , , Davis and Halbin , Bikker and Metzemakers (2004), Davis and Zhu (2005) and Aburime, Toni Uhomoibhi (2008) .

ROE, on the other hand, reflects how effectively a bank management is using shareholders' funds. A bank's ROE is affected by its ROA as well as by the bank's degree of financial leverage (equity/ asset). Since returns on assets tend to be lower for financial intermediaries, most banks utilize financial leverage heavily to increase return on equity to a competitive level. This ratio is intended to measure the risks to which the commercial banking are subjected

through depending on money borrowed for financing its assets. A lower index in this regard means that the bank depends on borrowed money for financing its assets, thereby exacerbating capital risks.

2.4.2 Independent variables:

Independent variables of the study on which data were collected include the following:

1. Bank size:

It is measured by the natural logarithm of total assets. It is argued by Demerguç-Kunt and Huizingha (1999), Haron, Sudin (2004), Toni Uhomoibhi, (2008), Athanasoglou, Panayiotis P. and *et al*, (2008), and Ben Naceur and Goaied (2010). They found a significant positive relationship between Return on Asset and Return on Equity and size of the banking. They have been selected the size of the banking as an independent variable because Large size is expected to promote economies of scale and reduce the cost of gathering and processing information. In general, large-sized banks have the advantage of providing a larger menu of financial services to their customers, and hence mobilize more funds (Bashir, 1999).

2. Earning per share:

Equity shares participate in the net profit for the period only after preference shares. An enterprise may have more than one class of equity shares. Equity shares of the same class have the same rights to receive dividends. The term **earnings per share (EPS)** represents the portion of a company's earnings, net of taxes and preferred stock dividends, that is allocated to each share of common stock. The figure can be calculated simply by dividing net income earned in a given reporting period (usually quarterly or annually) by the total number of shares outstanding during the same term. Because the number of shares outstanding can fluctuate, a weighted average is typically used. EPS is a carefully scrutinized metric that is often used as a barometer to gauge a company's profitability per unit of shareholder ownership. As such, earnings per share are a key driver of share prices. It is also used as the denominator in the

frequently cited P/E ratio.
EPS can be calculated via two different methods: basic and fully diluted. Fully diluted EPS -- which factors in the potentially dilutive effects of warrants, stock options, and securities convertible into common stock -- is generally viewed as a more accurate measure and is more commonly cited.
The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability.
Earnings per share are generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio **(investopedia).**

3. Net Interest Margin (NIM)

Net interest margin is a financial measure for banks, calculated by the amount of money the bank receives from interest on assets (commercial loans personal mortgages, etc) minus the amount of money the bank pays out for interest on liabilities (personal bank accounts, etc). Although usually calculated for banks, this figure can also be calculated for other corporations, simply by subtracting the amount of interest paid on liabilities from the amount of interest earned from assets. Net interest income (NII) is the difference between revenues generated by interest-bearing assets and the cost of servicing (interest-burdened) liabilities. For banks, the assets typically include commercial and personal loans, mortgages, construction loans and investment securities.
It is usually expressed as a percentage of what the financial institution earns on loans in a time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period.
.Net Interest Rate Margins (NIM) represents a vital component of profitability and typified a summary measure of bank net interest rate of return. Of which, interest margin reflects both the volume and mix of a bank's assets and liabilities, and covers the costs of the intermediation function. In Jordan, given the variations in banks profitability, and the need to generate an

adequate level of interest margins in relation to profitability, the issue of how those margins are determined and adjusted to changes in the banking industry deserves more attention.

Net interest margin measures the gap between the interest income the bank receives on loans and securities and interest cost of its borrowed funds. It reflects the cost of bank intermediation services and the efficiency of the banking sector.[2] In general, the higher is the net interest margin, the higher are banks' profit and the more stable is the banking sector. However, a higher net interest mmargin could reflect riskier lending practices associated with substantial loan loss provisions, and, by end, could be an indication of inefficiency in the banking sector.(Khrawish and *et al, 2008).*

4. Debt to Equity

Debt to Equity ratio is a measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets. A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expense.

If a lot of debt is used to finance increased operations (high debt to equity), the company could potentially generate more earnings than it would have without this outside financing. If this were to increase earnings by a greater amount than the debt cost (interest), then the shareholders benefit as more earnings are being spread among the same amount of shareholders. However, the cost of this debt financing may outweigh the return that the company generates on the debt through investment and business activities and become too much for the company to handle. This can lead to bankruptcy, which would leave shareholders with nothing.

5. Total liabilities/ total Assets (*TL* /*TA*)

Some Researchers, Bashir, Abdel Hamid M. , (2003)and Haron, Sudin (2004) used the ratio of total liabilities to total assets (LATA) as a proxy for risk, because there are some deposits of

Islamic banks include investment, saving, and demand deposits. Investment deposits are not exactly liabilities to the bank since their nominal value is not guaranteed. Hence, the ratio LATA should generally be lower than it appears to be. So, It is using *TL /TA* adds a greater depth in understanding the risks a bank takes when trying to obtain higher returns. First, a higher risk ratio is an indicator of lower capital ratio or greater leverage. A lower capital ratio may trigger safety and public confidence concerns for the respective bank. Besides, a lower capital ratio indicates less protection to depositors whose bank accounts are not fully insured. Second, when a bank chooses to take more capital risk (assuming this is allowed by its regulators), its leverage multiplier and return on equity, will increase. In the absence of deposit insurance, high risk-taking will expose the bank to the risk of insolvency. Therefore, the sign of coefficient of LATA may be negative or positive.

6. Total Equity/ total Assets (TE/TA)

There are many Researchers, Demerguç-Kunt and Huizingha (1999), Haron, Sudin (2004) , Toni Uhomoibhi, (2008), Bashir, Abdel Hamid M. , (2003) , used Total Equity/ total Assets (TE/TA) as Independent variables that affecting on ROE and ROI because the large size of equity is expected to reduce the risk (capital risk) and a lower capital ratio may trigger safety and public confidence concerns for the respective bank. In general, the large size of equity have the advantage of providing a larger menu of financial services to their customers, and hence mobilize more funds (Bashir, 1999).It is expected a significant positive relationship between TE/TA and Return on Asset and Return on Equity

7. Capital adequacy ratio

Capital adequacy ratio (CAR), also called Capital to Risk (Weighted) Assets Ratio (CRAR), is a ratio of a bank's capital to its risk. National regulators track a bank's *CAR* to ensure that it can absorb a reasonable amount of loss and complies with statutory Capital requirements. **(Wikipedia).** Capital adequacy ratios ("CAR") are a measure of the amount of a bank's core capital expressed as a percentage of its risk-weighted asset. Capital adequacy ratio is the ratio

which determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk, etc. In the most simple formulation, a bank's capital is the "cushion" for potential losses, and protects the bank's depositors and other lenders. Bankig regulators in most countries define and monitor *CAR* to protect depositors, thereby maintaining confidence in the banking system.

CAR is similar to leverage; in the most basic formulation, it is comparable to the inverse of debt-to-equity leverage formulations (although CAR uses equity over assets instead of debt-to-equity; since assets are by definition equal to debt plus equity, a transformation is required). Unlike traditional leverage, however, CAR recognizes that assets can have different levels of risk.

8. Annual Growth Rate for Gross domestic product (GDPGR):

Gross domestic product (GDP) refers to the market value of all officially recognized final goods and services produced within a country in a given period. GDP per capita is often considered an indicator of a country's standard of living.

The total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports. The GDP report is released at 8:30 am EST on the last day of each quarter and reflects the previous quarter. Growth in GDP is what matters, and the U.S. GDP growth has historically averaged about 2.5-3% per year but with substantial deviations. Each initial GDP report will be revised twice before the final figure is settled upon: the "advance" report is followed by the "preliminary" report about a month later and a final report a month after that. Significant revisions to the advance number can cause additional ripples through the markets.

The GDP numbers are reported in two forms: current dollar and constant dollar. Current dollar GDP is calculated using today's dollars and makes comparisons between time periods difficult because of the effects of inflation. Constant dollar GDP solves this problem by converting the current information into some standard era dollar, such as 1997 dollars. This process factors out the effects of inflation and allows easy comparisons between periods.

There are many Researchers , Haron, Sudin (2004) , Toni Uhomoibhi, (2008), Bashir, Abdel Hamid M. , (2003) , used Annual Growth Rate for Gross domestic product (GDPGR) as Independent variables that affecting on ROE and ROA because the high of Annual Growth Rate for Gross domestic product (GDPGR) means the increased of investment (Chan andGemayel, 2004; Singh and Jun, 1995).

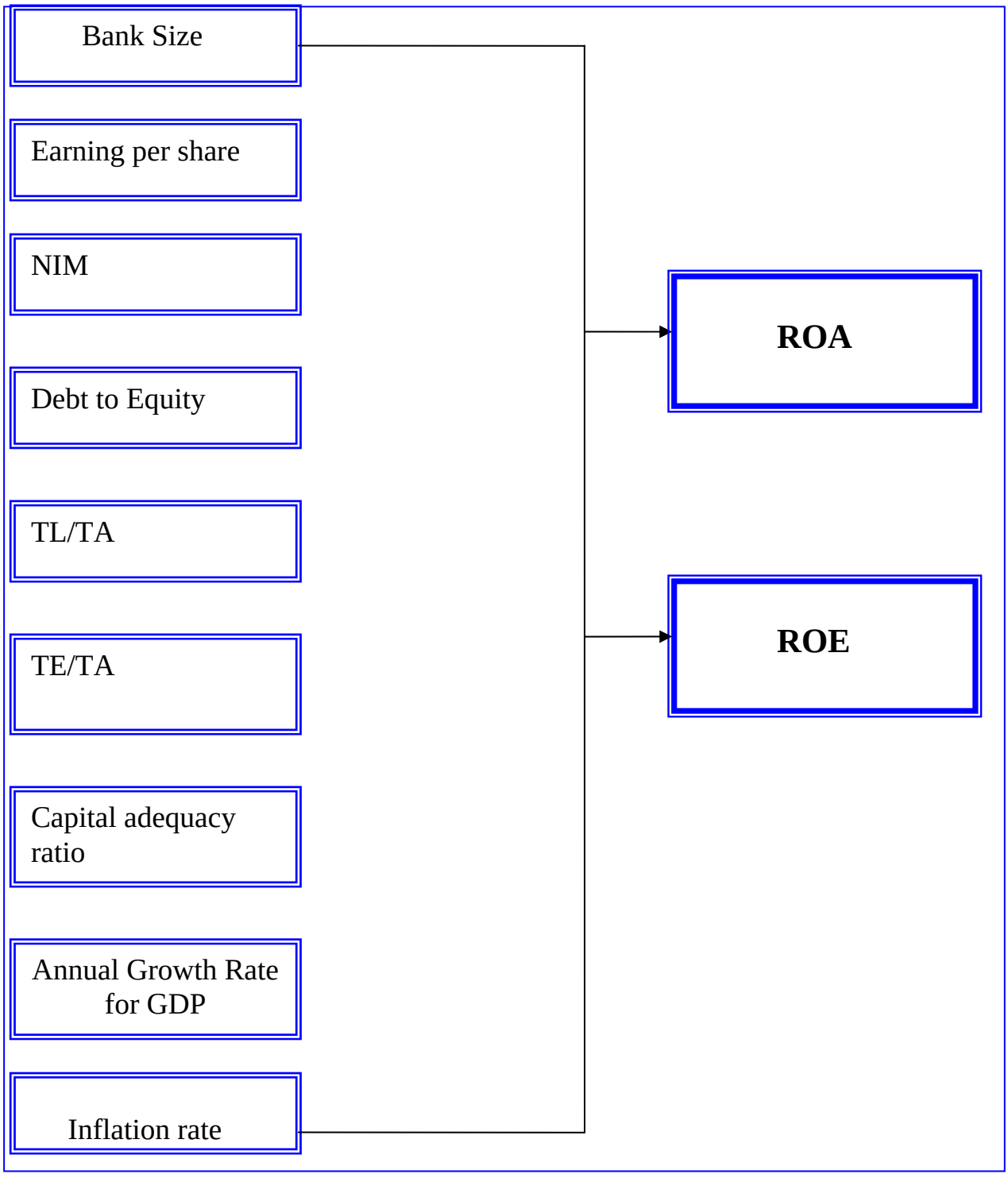
So, There is a direct impact between GDPGR and on ROE and ROA as soon as, It is expected a positive relationship between GDPGR and ROE and ROA.

9. Annual inflation rate (AIR):

This is another important environmental condition which may effect on on ROE and ROA. This factor represents the changes in the general price level or inflationary conditions in the economy. The annual rate of inflation reflects changes in the Consumer Price Index (CPI) between a given period and the same period the previous year. In this case, it shows the percentage change over a twelve-month period.

The impact of inflation rates on on ROE and ROA depend on its effect on the investor's return. Nonnenberg and Mendonca (2004) investigated that the on ROE and ROA is correlated to level of economy's degree of openness, risk and variables related to macroeconomic performance like inflation, risk and average rate of economic growth. The results also show that the on ROE and ROA has been closely associated with stock market performance. Lastly, a causality test between on ROE and ROA and GDPGR is performed.

2.5 Research framework



2.6 Hypotheses

H1: Relationship between ROA and ROE & Bank Size

H2: Relationship between ROA and ROE & EPS

H3: Relationship between ROA and ROE & net interest margin.

H4: Relationship between ROE and ROE & Debt to Equity

H5: Relationship between ROE and ROE & TE/TA

H6: Relationship with ROE and ROE & Annual Growth Rate for GDP

H7: Relationship between ROE and ROE & Inflation rate

2.7 METHODOLOGY

Generally, most of the previous studies on commercial banks' performance in developing countries were concentrated on external variables (as inflation and GDP) or on internal variables (such as ROA and ROE). In this study, I combined both internal and external factors affecting commercial banks in Bangladesh. We also added new variable (religion believes) to our study, which has not been used before in the previous studies. Since the research is conducted on countries with high Muslim population, religion is a primary variable in our study that must not be neglected.

Sampling Design

The sample for this studies all branches of the banks in Bangladesh.

2.8 Instruments:

A variety of techniques are used for collecting primary data. In some cases, a research instrument will be used. Various Research Instruments may be used in a given type of Analysis. The Choice of methodology of the Research Instrument is where the Researcher chooses the data collection tool, such as a survey, experiment, etc. to achieve the Research Objectives .

Choosing the Research Instrument is done after Conceptualization & the choice of Units of Analysis & must be done before operational concepts via construction of the Instrument. Several different Research Instruments can be used to achieve the same Research Objectives .

With the topic, thesis, types of analysis, lit review, objectives & conceptualization understood, the researcher should have a general idea of which data collection method is best suited for the topic.

As I use secondary data, I collect all the data from annual report of the banks and from web site.

2.9 Data collection procedure

The present study is based on secondary data. Data are collected from the annual reports of respective banks. The annual data for **Bank Asia** during the financial years of 2005-2010 are used for rating the performance of the banks. The fiscal year ends on June 30 of each year. In addition another source of data was through references to the library and the review of different articles, papers, and relevant previous studies.

Organization's past information has been collected through different published articles, journal, and brochures. No formal questionnaire for data collection is used. Basic company Information is collected through informal discussions with Relationship managers & respective Unit heads of Bank Asia Ltd.

2.10 Data analysis:

In the organization part information is provided in a descriptive manner. In the project part data analysis has been done into two parts. One is the data presentation. The second part is analysis. Statistical analysis of the quantitative data has been done. Based on the survey result I use SPSS software to get the statistical analysis.

I have divided data analysis part in three steps:

- Descriptive analysis

- Regression Analysis
- Correlation analysis

RESULTS

Descriptive analysis

Descriptive research can be either quantitative or qualitative. It can involve collections of quantitative information that can be tabulated along a continuum in numerical form. Descriptive statistics is the discipline of quantitatively describing the main features of a collection of data. Descriptive statistics provides simple summaries about the sample and about the observations that have been made.

Table 1: Descriptive statistics for dependent variables

Descriptive Statistics						
	Bank Asia Ltd		***South East Bank***		***MTB***	
	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation
ROA	2.5950	0.64519	1.5717	0.51685	1.4200	.56260
ROE	26.9367	4.06478	17.2500	2.82336	7.3283	2.56458

From these results, it can be seen that Bank Asia Ltd **(ROA)** has a mean of 2.5950. This is accepted when we compared with the mean of South East Bank 1.5717 during the period of 2005-2010. This is also accepted we compared with the mean of MTB.

Apparently the standard deviation for both ROA and ROE indices are extremely 0.64519 and 4.06478. These ratios are acceptable for both ratios when we compared it with South East Bank which is reached 0.51685 and 2.82336.

Table 2: Descriptive statistics for independent variables

Descriptive Statistics

	Bank Asia Ltd		South East Bank		MTB	
	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation
bank size	5.3253E4	30221.3190	8.1382E4	34586.6483	3.7949E4	15173.7001
earning per share	48.2217	12.54697	42.3683	13.39036	34.4950	14.01477
capital adequacy ratio	10.6117	1.51095	10.9150	2.07904	10.9417	1.23120
NIM	2.3700	.32119	1.9017	.41034	1.5621	.3021
Debt to Equity	14.0383	.73923	10.8717	4.75714	12.551	2.1536
TL/TA	.9334	.00333	.906983	.0271654	.81252	.00154
TE/TA	.0666	.00334	.092633	.0266291	.12553	.02445
Annual Growth Rate for GDP	6.1667	.31411	6.1667	.31411	6.1667	.31411
Inflation rate	7.5500	1.41527	7.5500	1.41527	7.5500	1.41527

Bank Asia's mean of EPS is higher than South East Bank and MTB. Bank size is higher than MTB but lower than South East Bank. NIM, debt to equity and TL/TA is highest among these three banks. But TE/TA is lower than South East Bank. Annual Growth Rate for GDP and Inflation rate are same because three of these banks are in same country.

Correlations Analysis

Correlation is a statistical measurement of the relationship between two variables. Possible correlations range from +1 to –1. A zero correlation indicates that there is no relationship between the variables. A correlation of –1 indicates a perfect negative correlation, meaning that as one variable goes up, the other goes down. A correlation of +1 indicates a perfect positive correlation, meaning that both variables move in the same direction together.

- *** p<0.001= highly significant
- ** p<0.01 = significant
- *p<0.05 = less significant

Here I calculate Pearson correlation.

Table 3: correlation between ROA & Bank Sizes

Correlations

		return on asset	bank size
return on asset	Pearson Correlation	1	.541**
	Sig. (2-tailed)		.267
	N	6	6
bank size	Pearson Correlation	.541**	1
	Sig. (2-tailed)	.267	
	N	6	6

**. Correlation is significant at the 0.01 level (2-tailed).

- Here from this table we can see that there is a significant positive correlation between ROA & Bank Size. Bank Size is showing significance at the 0.01 level.

- There is positive correlation between ROA and net interest margin. Net interest margin showing significance at the 0.05 level. **(See table 5)**

- There is positive correlation between ROE and EPS. EPS is showing significance at .01 levels**. (See table 6)**

- Bank size is showing significance at .05 levels. There is positive correlation between bank size and ROE**. (See table 7)**

- There is positive correlation with ROE and net interest margin. And the significance level is .05. **(See table 8)**

- There are negative correlation between ROE and Debt to Equity. There is positive correlation with ROE and TE/TA. **(See table 9)**

- There are negative correlation between ROA and Debt to Equity. And positive correlation with TE/TA. **(see table 10)**

Regression Analysis

Regression analysis involves identifying the relationship between a dependent variable and one or more independent variables. A model of the relationship is hypothesized, and estimates of the parameter values are used to develop an estimated regression equation. Various tests are then employed to determine if the model is satisfactory. If the model is deemed satisfactory, the estimated regression equation can be used to predict the value of the dependent variable given values for the independent variables

Table 12

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.081	5	.416	10.604	.226[a]
	Residual	.000	0	.		
	Total	2.081	5			

a. Predictors: (Constant), TE/TA, bank size, NIM, earning per share, Debt to Equity

b. Dependent Variable: return on asset

Table 13

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	131.535	.000		.	.0000
	bank size	-4.33	.000	-2.029	-.059	.0000
	earning per share	.187	.073	1.143	. 3.692	.0735
	NIM	2.037	.364	1.014	.0012	.0381
	Debt to Equity	-4.360	.439	-4.996	.2444	.0732
	TL/TA	-1097.589	.031	-5.680	.1536	.042

a. Dependent Variable: return on asset

These are the t-statistics and their associated 2-tailed p-values used in testing whether a given coefficient is significantly different from zero. Using an alpha of 0.05

- The coefficient for bank size (-4.33) is significantly different from 0 because its p-value is 0.000, which is smaller than 0.05.
- The coefficient for EPS (.187) is not different from 0 because its p-value is 0.0735, which is greater than .05
- The coefficient for debt to equity (-4.360) is not significantly different from 0 because its p-value is 0.0732, which is larger than 0.05.
- The coefficient for TL/TA is different from 0 because its p-value is 0.042, which is larger than 0.05.

Table 14

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6.477	5.506		-1.176	.324
	annual inflation rate	-.106	.222	-.232	-.477	.666
	Annual Growth Rate for Gross domestic product	1.601	1.000	.779	1.600	.208

a. Dependent Variable: return on asset

The coefficient for annual inflation rate (-.106) is not different from 0 because its p-value is 0.666, which is definitely larger than 0.05.

The coefficient for Annual Growth Rate for Gross domestic product (1.601) is not different from 0 because its p-value is 0.208, which is definitely larger than 0.05.

Discussion

Ho: there is negative relationship between ROA and ROE & Bank Size

H1: there is positive relationship between ROA and ROE & Bank Size

There is a significant positive correlation between ROA and ROE with Bank Size. Bank Size is showing significance at the 0.01 level with ROA and 005 levels with ROE. (Table 3, 7)
In regression analysis p- value for bank size with relation to ROA is .0000, which is smaller than .05. (Table 13)
In regression analysis p- value for bank size with relation to ROE is 0.043, which is smaller than .05 (table 15)

So we can reject the null hypotheses.

Ho: there is negative relationship between ROA and ROE & EPS

H2: there is positive relationship between ROA and ROE & EPS

There is positive correlation between ROE and EPS. EPS is showing significance at .01 levels with ROE. **(Table 6)** there is a negative correlation between ROA and EPS. **(Table 17)**
In regression analysis p- value for EPS relation to ROA is .0735, which is larger than .05 (Table 13)
So we can not reject the null hypotheses. There would be negative relationship with ROA and EPS.

Ho: there is negative relationship between ROA and ROE & net interest margin

H3: there is positive relationship between ROA and ROE & net interest margin

The coefficient for NIM with relation to ROA2.037 is significantly different from 0 because its p-value is 0.0381 which is smaller than 0.05. (Table 13)

The coefficient for NIM with relation to ROE 10.270 is significantly different from 0 because its p-value is 0.035 which is smaller than 0.05. (Table 15)

So we can reject the null hypotheses. There are positive relationship between ROA and ROE with NIM.

Ho: there is negative relationship between ROA and ROE & Debt to Equity.

H4: there is positive relationship between ROA and ROE & Debt to Equity.

The significance of ROA and Debt to Equity is .0732, which is higher than .05.(table 13)
The significance of ROE and Debt to Equity is .346 which is higher than .05(table 16)
So both the cases we can not reject the null hypotheses.
There would be negative relationship.

Ho: there is negative relationship between ROA and ROE & TL/TA

H5 there is positive relationship between ROA and ROE & TL/TA.

The coefficient for TL/TA with relation to ROAis different from 0 because its p-value is 0.042, which is smaller than 0.05(table13)
The coefficient for TL/TA with relation to ROE is different from 0 because its p-value is 0.043, which is smaller than 0.05(table16)
So we can reject the null hypotheses. There are positive relationships.

Ho: there is negative relationship between ROA and ROE & Annual Growth Rate for GDP.

H6: there is positive relationship between ROA and ROE & Annual Growth Rate for GDP.

The coefficient for Annual Growth Rate for GDP with relation to ROA is not different from 0 because its p-value is .208, which is larger than 0.05(table13)

The coefficient for Annual Growth Rate for GDP with relation to ROE is not different from 0 because its p-value is .414, which is larger than 0.05(table11)

So we can not reject the null hypotheses. There are negative correlations among them.

Ho: there is negative relationship between ROA and ROE & Annual inflation rate.

H7: there is positive relationship between ROA and ROE & Annual inflation rate.

The coefficient for Annual inflation rate with relation to ROA is not different from 0 because its p-value is.666, which is larger than 0.05(table13).

The coefficient for Annual inflation rate with relation to ROE is not different from 0 because its p-value is .415, which is larger than 0.05(table11).

So we can not reject the null hypotheses. There are negative correlations among them

Recommendation

The primary objective of this study is to examine and analyze the determinants of Bank Asia's financial performance during the period from 2005-2010.

The results indicated that all the above factors are important to determine financial performance of a bank. The variable bank size is most important factor in order to grow and stabilize worldwide.

If bank can improve its bank size, total Liability by total Asset, Net Interest Margin, Capital Adequacy ratio, it will increase bank's ROA and ROE.

The study follows a functional model which was employed earlier by Demerguç-Kunt and Huizingha (1999), Haron, Sudin (2004) , Toni Uhomoibhi, (2008), Athanasoglou , Panayiotis P. and *et al*, (2008), and Ben Naceur and Goaied (2010).The study model is tested on time series cross sectional bank level data. In our study, we choose 9 variables and analyze those by using SPSS.

The analysis revealed that there are significant and positive relationship between ROA and Bank size, TL/TA, NIM, TE/TA and negative correlation between ROA and. Annual Growth Rate for GDP, Inflation rate, earning per share and Debt to equity.

Also this study found that there are significant and positive relationship between ROE and Bank size, TL/TA, NIM, TE/TA and negative correlation between ROE and. Annual Growth Rate for GDP, Inflation rate, earning per share and Debt to equity.

Conclusion

The purpose of the study was to examine the relationship of determining the different attributions of the performance measures in Bank Asia Ltd. The study was conducted using financial statements of Bank Asia Ltd.

Bank Asia Limited is undoubtedly a successful bank. In achieving the aforesaid objectives of the Bank, management should careful about the performance indicator factors of bank. They should know the relation with the indicators to take better decision.

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Model Tables

Table 4

Correlations

		return on asset	Inflation rate	Annual Growth Rate for GDP
return on asset	Pearson Correlation	1	-.167	-.660
	Sig. (2-tailed)		.751	.154
	N	6	6	6
Inflation rate	Pearson Correlation	-.167	1	.513
	Sig. (2-tailed)	.751		.298
	N	6	6	6
Annual Growth Rate for GDP	Pearson Correlation	-.660	.513	1
	Sig. (2-tailed)	.154	.298	
	N	6	6	6

Table 5

Correlations

		return on asset	net interest income
return on asset	Pearson Correlation	1	.488*
	Sig. (2-tailed)		.326
	N	6	6
net interest margin	Pearson Correlation	.488*	1
	Sig. (2-tailed)	.326	
	N	6	6

*. Correlation is significant at the 0.05 level (2-tailed).

Table 6

Correlations

		return on equity	earning per share
return on equity	Pearson Correlation	1	.977**
	Sig. (2-tailed)		.001
	N	6	6
earning per share	Pearson Correlation	.977**	1
	Sig. (2-tailed)	.001	
	N	6	6

**. Correlation is significant at the 0.01 level (2-tailed).

Table 7

Correlations

		return on equity	bank size
return on equity	Pearson Correlation	1	.812*
	Sig. (2-tailed)		.050
	N	6	6
bank size	Pearson Correlation	.812*	1
	Sig. (2-tailed)	.050	
	N	6	6

*. Correlation is significant at the 0.05 level (2-tailed).

Table 8

Correlations

		return on equity	net interest income
return on equity	Pearson Correlation	1	.822*
	Sig. (2-tailed)		.044
	N	6	6
net interest margin	Pearson Correlation	.822*	1
	Sig. (2-tailed)	.044	
	N	6	6

*. Correlation is significant at the 0.05 level (2-tailed).

Table 9

Correlations

		return on equity	Debt to Equity	TL/TA	TE/TA
return on equity	Pearson Correlation	1	-.424	.368	.383
	Sig. (2-tailed)		.402	.473	.454
	N	6	6	6	6
Debt to Equity	Pearson Correlation	-.424	1	.998**	-.999**
	Sig. (2-tailed)	.402		.000	.000
	N	6	6	6	6
TL/TA	Pearson Correlation	.368	.998**	1	-1.000**
	Sig. (2-tailed)	.473	.000		.000
	N	6	6	6	6
TE/TA	Pearson Correlation	.383	-.999**	-1.000**	1
	Sig. (2-tailed)	.454	.000	.000	
	N	6	6	6	6

**. Correlation is significant at the 0.01 level (2-tailed).

Table 11

Correlations

		return on equity	Inflation rate	Annual Growth Rate for GDP
return on equity	Pearson Correlation	1	-.044	-.414
	Sig. (2-tailed)		.934	.700
	N	6	6	6
Inflation rate	Pearson Correlation	-.044	1	.513
	Sig. (2-tailed)	.934		.298
	N	6	6	6
Annual Growth Rate for GDP	Pearson Correlation	-.414	.513	1
	Sig. (2-tailed)	.700	.298	
	N	6	6	6

Table 10

Correlations

		Debt to Equity	TL/TA	TE/TA	return on asset
Debt to Equity	Pearson Correlation	1	.998**	.999**	-.023
	Sig. (2-tailed)		.000	.000	.965
	N	6	6	6	6
TL/TA	Pearson Correlation	.998**	1	-1.000**	.070
	Sig. (2-tailed)	.000		.000	.895
	N	6	6	6	6
TE/TA	Pearson Correlation	.999**	-1.000**	1	-.056
	Sig. (2-tailed)	.000	.000		.916
	N	6	6	6	6
return on asset	Pearson Correlation	-.023	.070	-.056	1
	Sig. (2-tailed)	.965	.895	.916	
	N	6	6	6	6

**. Correlation is significant at the 0.01 level (2-tailed).

Table 15

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.065	5.982		1.348	.406
	bank size	.598	.000	-1.980	-4.447	.043
	earning per share	.214	.057	.949	3.719	.167
	NIM	10.270	3.693	1.168	2.781	.035
	capital adequacy ratio	-1.471	.394	-.787	-3.732	.167

a. Dependent Variable: return on equity

Table 16

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-9714.600	3514.254		-2.764	.221
	Debt to Equity	-51.831	16.937	-13.571	-3.060	.346
	TL/TA	94.982	38.652	3.212	.829	.043
	Annual Growth Rate for GDP	2.703	3.239	.301	.835	.557
	Inflation rate	-.825	.629	-.414	-1.311	.415

a. Dependent Variable: return on equity

Table 17

Correlations

		return on asset	earning per share
return on asset	Pearson Correlation	1	-.097
	Sig. (2-tailed)		.855
	N	6	6
earning per share	Pearson Correlation	-.097	1
	Sig. (2-tailed)	.855	
	N	6	6

Table 18

Correlations

		return on asset	capital adequacy ratio
return on asset	Pearson Correlation	1	.164
	Sig. (2-tailed)		.757
	N	6	6
capital adequacy ratio	Pearson Correlation	.164	1
	Sig. (2-tailed)	.757	
	N	6	6