

Performance Evaluation of Lease Financing as an Instrument of Financial Market in Bangladesh

A Thesis

Submitted to Dhaka University in Conformity with the Requirements for the Degree of

**DOCTOR OF PHILOSOPHY
IN FINANCE**

By

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DHAKA, BANGLADESH**

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DECLARATION OF ORIGINALITY

With utmost solemnity and sincerity I have the privilege to declare that this dissertation titled “**Performance Evaluation of Lease Financing as an Instrument of Financial Market in Bangladesh**” duly submitted to Professor M. Shahjahan Mina, Department of Finance, Dhaka University, for the degree of Doctor of Philosophy in Finance, is the outcome of my own research.

I also affirm that to the best of my knowledge, this piece of research has neither in part nor in full been submitted to any other university or institution for the award of any degree at tertiary level or for serving any other similar purpose.

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CERTIFICATION

Certified that this dissertation titled “**Performance Evaluation of Lease Financing as an Instrument of Financial Market in Bangladesh**” duly submitted to me, for the partial fulfillment of the award of degree of Doctor of Philosophy in Finance, is the original product of the own research of **Fazle Elahi Mohammad Faisal** under my all-out supervision.

I also assert that to the best of my knowledge, this piece of research has neither in part nor in full been submitted to any other university or institution for the award of any tertiary level degree or for serving any other similar purpose.

In addition, I acclaim that the submission of the dissertation is ascertained after a thorough review of the final draft.

(Professor M. Shahjahan Mina)

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&

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PREFACE

As because of the expansion of the economy of Bangladesh, the importance of lease financing as a mode of finance is increasing day by day in the country. Lease financing has some unique features that might be more favorable than other types of financing. Large organizations as well as SMEs in Bangladesh are utilizing lease financing and leasing companies are performing significant role in the economic development of the country. Lease financing has opened the door for large organizations and for SMEs to accumulate funds in easy terms and conditions. It is sometimes not easy for the SMEs to accumulate funds from banking institutions because of its tiny asset size. The expansion of small and medium enterprises (SME's) has a positive impact in the development of output and employment creation in the context of Bangladesh.

Among the leasing companies in Bangladesh -IDLC of Bangladesh, United Leasing, Phoenix Leasing Co. Ltd. are the most vital ones. The leasing companies in Bangladesh are providing leasing activities and they are also involved in stock market related activities such as underwriting, issue management, private placement, trust management, portfolio management and mutual fund operation. The leasing companies are also providing house building financing, merchant banking, corporate financing, short term financing and lease financing. Banks are also providing same services as leasing companies. Leasing companies in Bangladesh are facing competition with banks and they have problems and limitations to compete with banks. It is important to find out the reasons behind the competition between banks and leasing companies in the context of Bangladesh. It is also important to reveal

whether leasing is the substitute of term financing in Bangladesh at present or not. It is important to know why the borrowers in Bangladesh prefer lease financing than term loan. Banks and leasing companies are not providing operating lease in Bangladesh. It is also essential to identify the reasons behind the absence of operating lease in Bangladesh and the future prospects of operating lease in the country.

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Fazle Elahi Mohammad Faisal

ABSTRACT

Lease financing is becoming increasingly important and getting prominence as a mode of finance with the expansion of the economy of Bangladesh. Lease financing has some unique features that might be more favorable than other types of financing. Lease financing can support the expansion of SME sector which is considered to be the engine for the growth in Bangladesh. Lease financing has given the SMEs the opportunities to accumulate funds in easy terms and conditions. Large organizations of Bangladesh are also utilizing lease financing as a mode of finance. The leasing companies in Bangladesh are providing leasing activities and also they are involved in stock market related activities such as underwriting, issue management, private placement, trust management, portfolio investment and mutual fund operation. Leasing companies in Bangladesh are facing competition with banks and they have some problems and limitations to compete with banks.

This research has attempted to find out the reasons behind the competition between banks and leasing companies in Bangladesh. It is also important to reveal whether leasing is the substitute of term financing in Bangladesh at present or not. This research has also attempted to know why some of the borrowers in Bangladesh prefer lease financing to term loan. Banks and leasing companies are not providing operating lease in Bangladesh. It is also essential to identify the reasons behind the absence of operating lease in Bangladesh and the future prospect of operating lease in the country.

The thesis has started with the introduction chapter. Lease financing in Bangladesh has been described in this chapter. This chapter also includes problem statement, research issues, research objectives, scope of the study, sampling design and the benefit of the study.

The second chapter is 'Financial Market and The Economy of Bangladesh'. Descriptions about the financial market of Bangladesh and its components have been included in the chapter. The economic sectors of Bangladesh have also been described in this chapter. Third chapter is Literature Review. Summaries of different articles are included in this chapter.

Methodology of the research study has been spelt out in the fourth chapter. The study has used several inferential statistical tools and techniques including Data Envelopment Analysis (DEA) and Factor Analysis Model. Data Envelopment Analysis (DEA) has been used to measure the allocative efficiencies, technical efficiencies and cost efficiencies as well of leasing companies over the period of 2006 to 2011. Factor Analysis has also been used to identify the reasons for preference of leasing over term financing by borrowers in Bangladesh. Whether leasing is a substitution of term financing for different types of firms has also been tested in the context of Bangladesh. Reasons and problems of competition have been measured by key informant's interview and lending institutional survey. Key informants interviews have been used to identify the reasons behind the absence of operating lease in Bangladesh and the prospects of operating lease in Bangladesh. Herfindhal-Hirschman Index (H.H.I) has been used to measure the the degree of competition and concentration of the banks and leasing companies. Weighted Average Cost of Capital (W.A.C.C) of leasing

companies and banks have been estimated to reflect the cost of capital being used by these institutions.

Fifth chapter is Competition between banks and leasing companies in Bangladesh. It describes the reasons behind the competition between banks and leasing companies in Bangladesh. Banks are providing term loan and as well as lease financing. For that reason the competition exists between banks and leasing companies. Banks can provide short term loan but leasing companies are prohibited to provide short term loan. It has been found that both banks and leasing companies have increased their marketing expenses. Marketing expenses has increased the demand for the products of both banks and leasing companies. Leasing companies can provide faster service for financial solution than banks. Technological advancement has increased the competition of banks and leasing companies. Transaction cost have been minimized by both banks and leasing companies. Flexibility of terms and conditions of loan and lease has increased the competition between banks and leasing companies. Competition of banking sector and as well as leasing sector can be measured by using Herfindhal-Hirschman Index (H.H.I). H.H.I can be found by squaring the market share of each firm competing in the market, and then summing the resulting number. High concentration means less competition. It has been found by H.H.I that banks have more competition among themselves than leasing companies in Bangladesh. Banks can collect short term deposits but the leasing companies cannot collect short term deposits. As a result, the cost of capital of banks is low as compared to leasing companies. Leasing companies have less qualified personnel than banks. High cost of capital is the most challenging issues for leasing companies in Bangladesh. Leased asset recovery problem is another challenging

issue for leasing companies. There is a risk of capital losses due to obsolescence of the equipments or machines. Leasing companies have to pay high interest for the commercial loan to banks. Due to manpower shortage, the leasing companies in Bangladesh are facing challenges. It has been observed that the WACC of leasing companies are higher than the WACC of banks. Banks can collect demand deposits but leasing companies cannot collect demand deposits. As a result the WACC of banks is lower than WACC of leasing companies. The banks can utilize the low cost of fund by investing more in profitable sectors. Different profitable sectors should be identified and invested by the banks as their cost of fund is low compared to leasing companies. Banks should try to motivate their employees. The transaction cost of banks could be minimized to utilize the low cost of funds and to increase profit.

Sixth chapter is Efficiency analysis of leasing companies in Bangladesh through D.E.A. Data Envelopment Analysis (DEA) is a nonparametric method for the estimation of production frontiers. DEA is a linear programming methodology to calculate the efficiency of different firms from multiple inputs and outputs of firms. Utilizing the selected variables, such as unit cost and output, DEA software searches for the points with lowest unit cost for a given output and can form the efficiency frontier. Any company which is not on the frontier is considered as inefficient. A numerical coefficient is given to each firm, defining its relative efficiency. Data Envelopment Analysis (D.E.A) has been used to measure the technical efficiencies, allocative efficiencies and as well as cost efficiencies of 17 leasing companies for the period of 2006 to 2011 assuming variable return to scale and constant return to scale. Optimum level of inputs for efficient production assuming both variable return to scale and

constant return to scale have been identified in this research study. Technical Efficiencies and its decompositions have been identified for the period of 2006 to 2011. Output slacks and input slacks have also been identified in the study. Output slacks are created when the hypothetical firm on the efficient frontier belongs in a position that the firm can increase its output by the slack quantity without increasing inputs. Input slacks can also be explained as the output slacks. The firms are compared to a hypothetical firm that belongs on the efficient frontier. When a hypothetical firm belongs in a position on the production frontier that the firm yet can reduce the inputs by the slack quantity without reducing outputs.

Seventh chapter is comparison between lease financing and term financing in Bangladesh. Lease financing has some advantages that some of the borrowers prefer lease financing than term loan in Bangladesh. Leasing companies face some problems to conduct their business in Bangladesh. Though lease financing has some advantages, it has some disadvantages also. Provision of collateral, no third party guarantee for lease, faster service, less documentation etc. are the advantages for lease financing. Higher interest rate, restriction on equipment use, loss of residual value etc. are the disadvantages for lease financing. 50 firms capital structure for 5 years that have taken lease financing from banks or leasing companies has been collected. From the capital structure of these firms, proportion of loan and proportion of lease have been analyzed. Proportion test has been used to find out whether there is any significant difference between the proportion of loan and proportion of lease of 50 firms for 5 years or not. It has been found that the Z value for the proportion of loan and proportion of lease is 2.386 which is more than the critical value of 1.96. Based on Z value, it has been observed that the proportion of loan and lease of 50 firms have significant difference at 5 percent level

of significance. Depending on Z value, it can be said that the lease financing is not the substitution of term loan at present in Bangladesh.

Eighth chapter is preference of lease financing over term loan in Bangladesh. Different high official's interviews from banks and leasing companies have been taken to detect the reasons of preference of lease financing over term loan by some of the borrowers in Bangladesh. Provision of collateral, the time of lease repayment, E.M.I (Equal Monthly Installment) for lease, longer grace period for lease, no secondary security for lease, no third party guarantee for lease, lack of funds to choose lease financing, faster service for lease financing, less procedural complexity for lease financing, fewer documentation and submission of documents in one package, avoidance of many restrictive covenants, lease financing for low cost assets, sale and leaseback arrangements and total financing for lease are the reasons for the preference of lease financing over term loan by some of the borrowers in Bangladesh. Factor analysis has been used to detect different factors and their correlated variables. From the overall factor analysis (Borrowers who takes lease from banks as well as leasing companies) it has been revealed that under first factor the correlated variables are less procedural complexity for lease financing, fewer documentation and submission of documents in one packages and avoidance of many restrictive covenants. The percentage of variation is 14.10. It means that these three variables explain 14.10 percent of total influencing variables.

Ninth chapter is operating lease in Bangladesh. In chapter nine, causes for the absence of operating lease and the future prospects of operating lease have been described. The

operating lease is not much popular in Bangladesh. The culture of using operating lease has not been developed yet in Bangladesh. Because of low technological development, the risk of becoming obsolete of the equipment or machine is comparatively low in Bangladesh. People can easily handle and use financial lease for a long period of time. Operating lease should be handled by the professional persons. Workshop/service centre is needed for the after sale service of leased assets. Proper maintenance, Pools of assets, skilled operators and service centers are essential for operating lease. In Bangladesh, there is lack of proper set up for operating lease. Weak legal framework is another problem for operating lease to be developed in the country. Operating lease is becoming popular day by day in the context of Bangladesh. Bangladesh is moving towards the industrial development. Infrastructural development is taking place within the country. Power backup, truck, escalator etc. are needed for the expansion of infrastructure. Those organizations which are involved in the infrastructural development process like operating lease asset for shorter time period. For that reason, there is the chance for the development of operating lease in Bangladesh. As because of the expansion of the economy, operating lease has a prospective future in Bangladesh. Summary, recommendations and conclusion have been described in the tenth chapter. Finally, future scope of research has been described in the eleventh chapter.

Glossary

Annual Report: An annual report is a complete report on a company's activities throughout the previous year. Annual reports are intended to provide shareholders and other interested people information about the company's activities and financial performance.

Bridge Financing: In investment banking terms, it is a method of financing used by companies before their IPO, to acquire necessary cash for the maintenance of operations. Bridge financing is planned to cover expenses associated with the IPO and is typically short-term in nature. Once the IPO is complete, the cash raised from the offering will immediately payoff the loan liability.

Bangladesh Bank: The central bank of Bangladesh.

Capital Asset: A capital asset is defined as any asset used in operations with an initial useful life extending beyond one reporting period.

Capital Budgeting: Capital budgeting is the process by which the firm decides which long-term investments to make. Capital Budgeting projects are expected to make cash flows over several years. The decision to accept or reject a Capital Budgeting project depends on an analysis of the cash flows generated by the project and its cost.

Capital Market: Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. Participants such as individuals and institutions undertake the buying and selling of financial securities. Capital markets help channelize surplus funds from savers to institutions which then invest them into productive use. Usually, this market trades mostly in long-term securities

Capital Structure: A mix of a company's long-term debt, specific short-term debt, common equity and preferred equity. The capital structure can explain how a firm finances its overall operations and growth by using different sources of funds.

Chittagong Stock Exchange (CSE): The Chittagong Stock Exchange, commonly abbreviated as the CSE, is a stock exchange located in the industrial port city of Chittagong in Bangladesh.

Collateral: In lending agreements, collateral is a borrower's pledge of particular property to a lender, to secure repayment of a loan. The collateral serves as security for a lender against a borrower's default that is, any borrower failing to pay the principal and interest under the terms of a loan commitment.

Cost of Capital: The cost of capital is a term used in the field of financial management to refer to the cost of acquiring company's funds (both debt and equity).

Depreciation: A way of allocating the cost of a tangible asset over its useful life. Business organizations depreciate long-term assets for both tax and accounting purposes.

Dhaka Stock Exchange: The Dhaka Stock Exchange (DSE), located in Motijheel, Dhaka. DSE is one of the two stock exchanges of Bangladesh.

E.M.I (Equal Monthly Installment): A fixed payment amount made by a borrower to a lender at a specified date each calendar month. Equated monthly installments are used to pay off both interest and principal each month, so that over a specified number of years, the loan is paid off in full.

Financial Intermediaries: A financial intermediary is a financial institution that connects surplus and deficit units. The classic example of a financial intermediary is a bank that consolidates deposits and uses the funds to transform them into loans.

Financial Lease: In a typical financial lease agreement, the firm that will use the equipment (the lessee) selects the particular items it requires and negotiates the price and delivery terms with the manufacturer. The user firm then negotiates terms with a leasing company and, once the lease terms are set, arranges to have the lessor buy the equipment from the manufacturer or the distributor. When the equipment is purchased, the user firms simultaneously execute the lease agreement. The lessor receives the rental payments that are equal to the full price of the leased equipment plus a return on investment.

Financial Market: Any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives.

Financial Reporting: Financial reporting is presenting financial data of a company's operating performance, position and funds flow for an accounting period.

G.D.P: Gross domestic product (GDP) is the market value of all officially accepted final goods and services produced within a country in a year, or other given period of time.

Grace Period: A provision in most loan and insurance contracts which allows payment to be received for a certain period of time after the actual due date. During this period no late fees will be charged, and the late payment will not result in default or cancellation of the loan.

H.H.I: Herfindhal-Hirschman Index (H.H.I) is used to measure market competition. We can find the H.H.I by squaring the market share of each firm competing in the market, and then summing the resulting numbers. High concentration means less competition.

I.C.B (Investment Corporation of Bangladesh): Investment Corporation of Bangladesh (ICB) is a statutory corporation. It is primarily an investment bank. As an investment bank is a financial institution, which mobilized fund from the surplus economic units by savings

securities and developed funds to the deficit economic unit also by buying/underwriting securities.

Institutional Investors: Institutional investors are organizations which pool large sums of money and invest those sums in securities, real property and other investment assets.

Investment Portfolio: An investment portfolio is a collection of assets owned by an individual or by an institution.

Issue Management: IPO (Initial Public Offering) related activities.

L.C (Letter of Credit): A letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is incapable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase.

Leasing Company: The Company which is involved in leasing business.

Lessee: Someone who is allowed to use a machine, house, building, land etc. for a period of time in return for payment to the owner.

Lessor: The owner of an asset that is leased under an agreement to the lessee. The lessee makes one-time or periodic payments to the lessor in return for the use of the asset.

Lease Syndication: The procedure of involving a number of different lessors and funding sources in providing various percentages of a particular lease's debt and equity components.

Leasing Year Book: Book which is published by BLFCA (Bangladesh Leasing and Finance Companies Association). It describes about different leasing companies and their performances and the financial statements of different leasing companies.

Legal Framework: A broad system of rules that governs and regulates decision making, agreements, laws etc.

Microfinance Institution (MFIs): A financial institution specializing in banking services for low-income groups or individuals. A microfinance institution provides account services to small-balance accounts that would not normally be accepted by traditional banks, and offers transaction services for amounts that may be smaller than the average transaction fees charged by mainstream financial institutions.

Multinational Corporation: A Corporation that has its facilities and assets in at least one country other than its home country. Such companies have offices and/or factories in different nations and usually have a centralized head office where they co-ordinate global management.

Mutual Fund: A mutual fund is a type of efficiently managed collective investment scheme that pools money from many investors to buy securities.

N.B.F.I: Non-Bank Financial Institution, or NBFIs, is financial institutions that offer banking services, but do not hold a banking license. These institutions are not allowed to take demand deposits from the public. Nevertheless, all operations of these institutions are still covered under banking regulations.

NPV: The net present value (NPV) of a time series of cash flows both incoming and outgoing, can be defined as the sum of the present values (PVs) of the individual cash flows of the same entity.

O.D (Over Draft): An overdraft occurs when money is withdrawn from a bank account and the available balance goes below zero.

Operating Lease: An operating lease is a lease whose term is small compared to the useful life of the asset or piece of equipment (an airliner, a ship, etc.) being leased. An operating lease is generally used to obtain equipment on a relatively short-term basis.

Off balance sheet: Off-balance sheet (OBS) means an asset or debt or financing activity that is not included on the company's balance sheet.

Paid-up capital: The amount of a firm's capital that has been funded by shareholders. Paid-up capital can be less than a firm's total capital because a company may not issue all of the shares that it has been authorized to sell. Paid-up capital can also reveal how a company depends on equity financing.

Portfolio Investment: Group of investment.

Private placement: Private placement (or non-public offering) is a funding round of securities which are sold not through a public offering but rather through a private offering, generally to a small number of selected investors.

Residual Value: The residual value of an item is the expected value of the sale of an asset at the end of its estimated useful life.

Sale and leaseback arrangement: Arrangement in which one party sells an asset to a purchaser and the purchaser immediately leases the asset back to the seller. This agreement allows the initial buyer to make full use of the asset while not having capital tied up in the asset.

Stock Market: The market in which shares of publicly held companies are issued and traded either through exchanges or over-the-counter markets. Companies can accumulate funds through Stock Market and the investors can obtain the ownership of the company.

Transaction cost: A fee charged by a financial intermediary such as a bank, broker, or underwriter.

Underwriting: The procedure by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt).

V.A.T (Value Added Tax): A type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale.

W.A.C.C (Weighted Average Cost of Capital): A calculation of a company's cost of capital in which each type of capital is proportionately weighted. All capital sources - common stock, preferred stock, bonds and any other long-term debt - are included in WACC estimation.

CHAPTER-1

INTRODUCTION

Lease Financing in Bangladesh

Finance is vital for any business firms. The firms play major role in the development of the economy of any country. Lease financing is an important one among different kinds of financing. Lease financing is performing an important role in the development of Bangladesh. Lease is an agreement between the owner and the user of assets for a certain period of time. The user (lessee) uses an asset and makes rental payments periodically to the owner of asset without purchasing it. The amount which is paid by the lessee is fixed periodic rental payment at the beginning or end of the year to the lessor. The lessor usually gets back the asset after the completion of lease contract.

The economy of Bangladesh is growing gradually and the importance of lease financing is increasing day by day. Lease financing has some special features that might be more beneficial than other types of financing. At the time of taking investment decision, lease financing can be considered as an important alternative source of financing. Lease financing can assist to the improvement of SME sector which is essential for the development of economy like Bangladesh. Lease financing has given the SMEs the opportunities to accumulate funds in easy terms and conditions. Sometimes it is difficult for the SMEs to collect funds from banking institutions because of its tiny asset size.

The growth of small and medium enterprises (SME's) has a positive impact in the growth of output and employment creation in the context of a developing country like Bangladesh. The growth of SMEs will obviously help to alleviate the poverty as well as will help to stimulate the aggregate demand of the country. In the past SME gave a highly cost efficient and socially attractive path to industrialization in Bangladesh. One of the major constraints of SME financing by banks and financial institutions is collateral based lending of banks and

financial institutions which is not appropriate for SMEs. It has been found that inability to formulate a project proposal to seeking loan from the banking institution is also a problem for the SMEs. Complex bureaucratic procedures are another problem for SMEs. Lease financing could play a vital role to solve the financing problem for SMEs. Among the leasing companies in Bangladesh IDLC of Bangladesh, United Leasing, Phoenix Leasing Co. Ltd. are the most important ones. The leasing companies in Bangladesh are not only providing leasing activities but also are involved in stock market connected activities such as underwriting, issue management, private placement, trust management, portfolio investment and mutual fund operation. The leasing companies are also providing house building financing, merchant banking, corporate financing, short term financing and lease financing. Leasing companies in Bangladesh are performing capital market operations like corporate counseling, bridge financing, capital restructuring, financial engineering and lease syndication etc. Different sectors of Bangladesh are taking lease financing services. Transport, construction and engineering, paper and printing, pharmaceuticals, food and beverage, chemicals, leather and leather products, telecommunication, agro based industries are the different sectors which have taken the services of lease financing.

Lease financing is playing an important role in meeting the financial requirements of different sectors of the society and contributes to the economic development of the country. Lease financing has significant influence in strengthening the financial market of Bangladesh. Financial development in a country starts with the expansion of banking institutions. Lease financing also helps in the development process of the country along with the banking sector. Both leasing companies and banks can assist in mobilizing the savings

into investments. Their participation in the process of channeling the savings into investment makes them competitors as they try to provide the same requirements. They are also complementary to each other.

NBFIs as well as leasing companies in Bangladesh have some difficult issues. These issues are cost of fund, asset-liability mismatch, sources of funds, investment in high risk portfolio, competition with banks, lack of human resources, weak legal system, lack of secondary market etc. NBFIs are prohibited by laws to collect deposits for short term period. Banks can collect deposits for short period. As a result the costs of funds of banks are lower than leasing companies or NBFIs. Because of the access of low cost of funds, banks are in advantageous position than NBFIs as well as leasing companies. In Bangladesh, commercial banks started leasing operation effectively in 1995. Banks are also involved in non-bank financial activities. Leasing companies often find it hard to raise funds through short or long term borrowing from money and capital markets. This study is designed to identify the reasons of preference of lease financing over term loan, reasons behind the absence of operating lease in Bangladesh, whether leasing is the substitutes of term financing or not, problems, prospects and overall conditions of the leasing business in Bangladesh.

Problem Statement:

Literature review shows that different issues related with lease financing in Bangladesh are very limited. Though several issues associated with the lease financing in abroad have been identified but it is difficult to relate these articles with the economy of Bangladesh. Past studies about the lease financing in Bangladesh only depicts constraints, challenges, advantages in a smaller content. Studies conducted are not enough to identify the overall situation of lease financing in Bangladesh, its prospects in future, its contribution to the

growth of the economy, its performance and competition with banks, factors that affect the preference of lease financing over term loan, efficiencies of banks and leasing companies and the future prospect of operating lease in Bangladesh. Some studies have identified problems associated with the leasing institutions, NBFIs and as well as capital market related issues in Bangladesh. The following problems have been identified:

- 1) Difficulties of leasing companies are higher cost of fund, competition with banks, investment in portfolio of higher risk, mismatch between asset and liability, weak legal system, lack of qualified personnel etc.
- 2) Leasing companies financial reporting is not satisfactory and they are not following the standards.
- 3) Banks and financial institutions problems of SME financing.
- 4) Leased asset recovery problem in case of default and delays in court procedures to recover the asset.
- 5) Fund raising problem by short term and long term borrowing from money and capital market.

Evidently none of the studies have focused on the reasons of competition between banks and leasing companies and the major problems of NBFIs as well as leasing companies to compete with banks. Whether leasing is the substitution of term financing or not has not been focused by the previous studies. None of the study has evaluated the efficiencies of leasing companies . The study will identify the reasons behind the leasing companies to reduce their leasing business and the reasons behind becoming as the multiproduct institutions. The study will also identify some of the borrower's preference of lease financing over term loan despite higher interest rates. The prospect of operating lease in Bangladesh will also be identified.

Research Issues:

The research has attempted to answer the following questions and issues:

1) Why the competition between banks and Leasing companies are increasing and what are the major problems of leasing companies to compete with banks?

Banks are now participating in non-bank activities in Bangladesh. Leasing companies are also performing banking activities. Both banks and leasing companies are trying to attract the customers by providing multiproduct activities. As a consequence the competition between banks and leasing companies has increased in Bangladesh. Investment in high risk portfolio, mismatch between asset and liability, high cost of fund, weak legal system, lack of skilled personnel etc. are the major constraints of leasing companies to compete with the banks. Both can play major roles in influencing and channeling savings for investment. Leasing institutions are playing an important role to increase the national production of Bangladesh. Specially, leased assets are taken by the SMEs from different leasing institutions and banks because of easy terms and conditions. They are using these assets for their growth and production. As a result the national production of Bangladesh is increasing gradually.

2) Is leasing substituting term financing in the context of Bangladesh?

The lease financing in Bangladesh is becoming popular rapidly. SMEs of Bangladesh are depending on lease financing from different banks and leasing institutions. The major constraints of SME financing by banks and financial institutions are the poor knowledge and ability to prepare proper project proposals for seeking institutional loan, collateral based

lending procedures of banks and financial institutions, complex bureaucratic procedures etc. Lease financing could participate significant role to solve the financing problem for SMEs. By analyzing the capital structure of different firms of different years, it is possible to verify whether lease financing is the substitute of term financing at present in Bangladesh or not. Lease financing has some special characteristics that may provide more benefits than other types of financing. Lease financing has some disadvantages also that can reduce its popularity. Higher interest rate, restriction on equipment use, loss of residual value etc. are the disadvantages of lease financing. Accounting law, BAS-17 has made the financial lease to be treated as on balance sheet item. It has reduced the tax benefit of the lessee. As a result, the demand of lease financing has been reduced also.

3) Despite charging higher interest rates, why the borrowers (lessee) prefer lease financing than bank loan in Bangladesh?

Despite charging higher interest rates, some of the borrowers prefer lease financing than term loan. It can develop the SME sector that is vital for an economy. Leasing has given additional access that can help to get adequate funds at an easy term. Taking loans from banks and financial institutions needs adequate knowledge and ability to formulate proper projects proposals. Collaterals are required in case of bank loan. Lease financing could play a vital role to solve the financing problem. Leasing institutions could provide fast services that might not be possible for banks and financial institutions. Financing huge amount of money is difficult for only banks to manage. Quick documentation and fast decision making enable the leasing institutions to become popular gradually in Bangladesh. In case of lease financing no secondary security is required. No third party guarantee is needed for lease

financing. Lack of funds of borrowers is a factor which makes borrower to prefer lease financing than term loan. Consequently, Lease financing is becoming popular gradually in Bangladesh.

4) Why all leases are capital lease or financial lease in Bangladesh? Why not operating lease?

In Bangladesh capacity has not yet been developed to facilitate operating lease due to lack of expertise in maintaining and servicing the leased assets. In addition to rental income, opportunity of capital gain makes operating lease profitable. There is lack of technical as well as resource knowledge for operating lease in Bangladesh. There is lack of logistic support for operating lease in Bangladesh. The leasing companies as well as banks are providing only capital or financial leases because of high demand and supporting facilities.

Research Objectives:

The objectives of the research are-

- To identify the reasons of competition between banks and leasing companies and the problems of leasing companies to compete with banks.
- To discover whether leasing is the substitute of term financing in Bangladesh or not.
- To discover the reasons of preference of lease financing over bank loan by the borrowers (lessee) in Bangladesh.
- To identify the reasons behind the absence of operating lease in Bangladesh and the prospects of operating lease in Bangladesh.

Scope of the study:

Though there are some limitations, lease financing is becoming popular gradually in the context of Bangladesh. Lease can become a vital financing technique for SME category. In most developing countries capital markets are comparatively immature and banks prefer to lend to well recognize businesses that have a good reputation and can offer stronger security. Banks are often unable or unwilling to undertake term lending. Lease financing can help a great deal to finance the need of small business in Bangladesh to enhance the economic development of the country. Not much of studies have been done in the field of leasing in Bangladesh. There are ample scopes of studies in lease financing in Bangladesh.

Banks are performing dominant role in the transfer of funds from the savings to the productive investment. Due to their structural limitations and rigidity of different regulations, banks could not expand their operations in all expected areas. Competition exists between banks and leasing companies in different areas. Banks are also providing lease financing in Bangladesh. The efficiency level of leasing companies have been evaluated in the study. It is important to know the reasons of competition between banks and leasing companies and the problems of leasing companies to compete with banks. It is also important to identify why some of the borrowers prefer lease financing than term loan in Bangladesh. Though lease financing is becoming popular in Bangladesh but it has some limitations also. It is needed to identify whether leasing is the substitutes of term financing at present in Bangladesh or not.

It will help to indentify why firms have reduced to use lease financing in their capital structure. There have been scopes in the study to identify the prospects of operating lease in Bangladesh and reasons behind the absence of operating lease in Bangladesh. Different

firm's capital structures have been analyzed to identify the use of lease financing and term financing in Bangladesh.

Sampling Design:

The study is based on both primary and secondary data. Key Informants interviews have been taken from the high officials of banks and leasing companies. Secondary data have also been taken from the financial statements of banks and leasing companies.

Capital structures of 50 firms for 5 years have been taken to verify whether leasing is the substitutes of term financing at present in Bangladesh or not. 405 firm's opinions have been collected to identify why some of the borrowers prefer lease financing than term loan. Information have been collected through personal interviews. High officials of leasing companies as well as banks have been asked about different matters related with leasing companies and banks and about the leasing business in Bangladesh. Necessary information have been taken from different business magazines, journals, articles, publications and websites. The analyses have been conducted on the basis of primary and secondary data. Secondary data have been obtained from different sources like Bangladesh Bank, Leasing Year Book, annual reports of banks and leasing companies etc. Several statistical tools and techniques have been used throughout the study.

Benefit of the study:

The study will contribute to understand the essence of lease financing in Bangladesh. Factors that affect the leasing decision have been identified and that will contribute to compare lease financing with bank loans in Bangladesh. The study will be able to realize the challenges faced by leasing companies in Bangladesh and the necessary steps to face those challenges. Whether lease financing is the substitutes of term loan or not have been analyzed and it will

contribute to find the scope to use more lease financing. The organizations of Bangladesh will be able to implement more lease financing and that will increase the overall production of Bangladesh in long run. The efficiency of leasing institutions have been discovered by using Data Envelopment Analysis (DEA) method and the way to perform better in future have been discussed. The study will also contribute to find out the reasons behind the absence of operating lease in Bangladesh and the future prospects of operating lease in Bangladesh. The operating lease in Bangladesh could be a potential topic for further study.

CHAPTER -2

**FINANCIAL MARKET AND THE ECONOMY OF
BANGLADESH**

THE ECONOMY OF BANGLADESH

The economy of Bangladesh is market-based and it is expanding rapidly. The growth rate of the economy of Bangladesh is 6-7% per annum over the last few years (Wikipedia). Nearly half of the Bangladeshis are involved in the agriculture sector of the country. The service sector of the country is generating more than half of the GDP of the country. The per capita income of Bangladesh in 2012 was est. US \$2,100 (adjusted by purchasing power parity) (Wikipedia). The gross domestic product of Bangladesh is US\$306 billion in PPP terms and US\$153.6 billion in nominal terms (Wikipedia). Textiles, jute, fish, vegetables, fruit, leather and leather goods, ceramics, ready-made goods etc. are also produced in the country. Though Bangladesh has limited reserve oil but the country has achieved huge development in gas and coal mining. During the last two decades, the service sector of the country has expanded vastly. Communication, water distribution, transportation and energy infrastructure are flourishing rapidly in the country. Textiles and garments are the largest source of foreign earnings.

Bangladesh Bank reports the GDP growth rate in Bangladesh. 6.01 percent GDP has been extended in the fiscal year of 2012/2013 from the previous year in Bangladesh. Almost one-third of 150m people in Bangladesh live in extreme poverty. Bangladesh GDP Growth Rate averaged 5.6 Percent from 1994 until 2013. GDP has reached an all time high of 6.7 Percent in June of 2011 and a record low of 4.1 Percent in June of 1994. As a result of the improvement of microcredit and garment industry in the last decade, Bangladesh has achieved GDP growth rate which is more than 5 percent. Most of the Bangladeshi people are working in the agriculture sector but most of the exports revenues come from producing ready-made garments. The major problems to attain sustainable development in Bangladesh

are overpopulation, poor infrastructure, political instability and a slow execution of economic reforms. Remittance from Bangladeshis working overseas is also a major source of foreign exchange earnings. The foreign remittance of Bangladeshis comes mainly from Middle East countries. The demand for the jute of Bangladesh has increased also in the world market. Shipbuilding, pharmaceuticals and consumer goods manufacturing are vital industries of the country. Bangladesh also exports fish and seafood, ceramics, cement, fertilizer, construction materials, cane and leather products etc. Agriculture is the main earning source of most of the Bangladeshi people. Rice and jute are the primary crops in Bangladesh. Maize and vegetables are also important here. Tea is grown mainly in the Sylhet division of Bangladesh. Because of the expansion of the irrigation networks, some wheat producers have shifted to cultivation of maize. Maize is used mostly for poultry feed. In many areas of Bangladesh rice can be produced and harvested three times in a year because of fertile land and huge water supply. The labor-intensive agriculture sector of Bangladesh has achieved steady growth because of several factors though unfavorable weather condition sometimes reduced the crop production. Plenty of new jobs have been offered (mostly for women) by the ready-made garment industry of Bangladesh. The ready-made garment sector is expanding vastly from the beginning. The RMG industry exports totaled \$19 billion in 2011-2012 (Wikipedia). About 4 million people, mostly women, worked in export-oriented ready-made garment (RMG) industry of Bangladesh by 2013 (Wikipedia). By 2002, exports of ready-made garments (RMG), textile and clothing were 77% of Bangladesh's total merchandise exports (Wikipedia). Other industries like the pharmaceutical industry, shipbuilding industry, information technology, leather industry, steel industry, electronics industry and light engineering industry have shown significant enhancement in Bangladesh.

The textile industry has been performing a vital role in the economy of Bangladesh for a long time. At present, the textile industry occupies 45 percent of all industrial employment in Bangladesh and contributes 5 percent of the total national income of the country (Wikipedia). Foreign investors own only 5% of textile factories in Bangladesh and major portion of the production are controlled by Bangladeshi investors (Wikipedia). The wages for the workers of textile industry is very low as compared to other countries. Bangladesh exports its apparel products mainly to the United States, European Union (EU) and Canada. It is one of the largest apparel suppliers to the United States and EU countries.

FINANCIAL MARKET

Financial market transfers funds from the surplus units to the deficit units of the economy. A financial market is a system that allows people to buy and sell financial securities. Financial markets have evolved extensively over a number of hundred years and are undergoing regular development to improve liquidity. The financial market facilitates in accumulation of resources and transfer of risk. The financial market plays a vital task in the development of Bangladesh. The financial intermediaries play an important role through the accumulation of resources from the surplus units of the economy and distribute these resources in creative purposes and hence enhance the national production of the country. Leasing companies in Bangladesh are playing important role in the development of financial market in Bangladesh. Commercial banks in the country are performing dominant task in the collection of funds and use these funds in productive investment. As because of their structural limitations and strictness of diverse regulations, banks could not expand their operations in all expected areas. They provide only limited financial services. Leasing companies as well as NBFIs are

playing a vital role in the economic development of the country through accumulating the funds from the savers and utilize these funds in investment.

Money market

Money Market is a fundamental part of the financial market of Bangladesh. Money market provides short term funds to different firms. The participants in the money market are: the central bank, commercial banks, the government, savings and loan associations, finance companies, insurance companies etc. The instruments that are normally traded in the money market are: short-term central bank and government bonds, treasury bills, banker's acceptances, negotiable certificates of deposits and commercial papers like the bills of exchange and promissory notes, mutual funds etc.

The money market in Bangladesh is in its intermediary stage. At present, government treasury bills of different maturity, Bills and Certificates of Deposits of Bangladesh Bank etc in partial supply are available for trading in the market. However, the short-term credit market of the banking sector experienced a great expansion since liberation. In the year of 1999, about 6000 branches of the different scheduled banks provided short-term credit throughout Bangladesh in the form of, overdraft and demand loan and cash credit. The interest rates are determined by the individual banks and the market is quite competitive. Bangladesh Bank as the central bank of the country exercises its role in this market through monetary policies by the use of instruments such as bank rate, open market operations and changes in statutory liquidity requirements.

The money market of Bangladesh reached its present condition through a sequence of changes and development. Primarily, after liberation, money market was the major element

of the financial market of Bangladesh. All financial institutions of the country were nationalized after 1971. The growth and development of money market in the country took place during the period from 1971 to the early eighties under various sets rules and regulations of the government. However, in this period a huge financial superstructure with big network of commercial bank branches was established in Bangladesh. Simultaneously, specialized financial institutions under government sector also emerged with the objective of channeling financial resources and mobilizing them for short, medium and long-term credit and investments to increase the national output of the country. The market participants had to activate in a situation of directed lending and loan disbursement goals, and predetermined rates of interest fixed by the authority. However, rate of interest in the call market was flexible but due to incidence of liberal refinance capability at concessional rates from Bangladesh Bank, the activities of call money market remained unimportant.

Capital Market

Capital market is the market of debt securities or equity securities. Business firms and the government of a country can accumulate long-term funds from the capital market. It is a market from which money is provided for time periods longer than one year. Short term funds are collected from money market. The capital market includes the bond market (debt) as well as the stock market (equity). Bangladesh Financial Services Authority or the Bangladesh Securities and Exchange Commission, monitor the capital markets of Bangladesh to protect the investors of the country.

The capital market is very important for the development of the economy of any country. Capital market performs a significant role in the accumulation of funds from the savers and

allocates these funds to the companies which are looking for financing in the expansion of their business. By providing debt financing to different firms, commercial banks provide important primary support for the growth of organizations. If organizations within the country do well and distribute its profit to its shareholder, then the wealth will be maximized for the shareholder and it will be reflected in the stock market of the country. Developed stock market indicates sound capital market which is the prerequisite for economic development. Bangladesh has achieved significant improvement in the social development even with difficult political environment and extensive poverty. However, the capital market in Bangladesh is still underdeveloped, and its development is required for the development of the economy of Bangladesh. Since the inception of the Securities and Exchange Commission (SEC) in 1993, the capital market has achieved a lot of developments.

In Bangladesh there is lack of independent research house to analyze the stock market. Generally the small investors depend on the advice of the brokers which often consists of market rumors. It often results to huge losses for small share investors. Small investors are essential for a low-income and promising market like Bangladesh. The ratio of institutional-to-retail investors is still low at present in the country relatively to other promising markets. Long-term commitment can be ensured by the institutional investors. They generally focus on fundamentals that leads to the stability in the market. It is difficult to get reliable and valuable corporate information and it is one of the major problems of the capital market of Bangladesh. Some of the institutional investors have the access of that information as they have an investment unit of qualified employees. Because of the specialized analytical ability of the institutional investors, it is expected that they can evaluate the securities correctly. International standard corporate governance is still lacking in Bangladesh. Multinational corporations and institutions operating in Bangladesh often maintain a very high international

standard compliance level. An important feature of the capital market is that it reflects the fair value of the securities. This is not properly present in the current situation of the capital market of Bangladesh and for that reason the market is not getting the interest of a vital segment of both foreign and local investors. While Bangladesh has public and private sector institutional investors in the economy, proprietary investment from these institutions is not considerable other than ICB (Investment Corporation of Bangladesh) that was formed in 1976 and manages several mutual funds at present. Investors are relying more on speculative analysis which results instability in the market. Fundamental analysis should be used in Bangladesh to attract long term investors who are certain about their investment and its expectation. The capital market is very important for the development of the economy of any country. Capital market performs a significant role in the accumulation of funds from the savers and allocates these funds to the companies which are looking for financing in the expansion of their business. By providing debt financing to different firms, commercial banks provide important primary support for the growth of organizations. If organizations within the country do well and distribute its profit to its shareholder, then the wealth will be maximized for the shareholder and it will be reflected in the stock market of the country. Developed stock market indicates sound capital market which is the prerequisite for economic development. Bangladesh has achieved significant improvement in the social development even with difficult political environment and extensive poverty. However, the capital market in Bangladesh is still underdeveloped, and its development is required for the development of the economy of Bangladesh. Since the inception of the Securities and Exchange Commission (SEC) in 1993, the capital market has achieved a lot of developments. In Bangladesh there is lack of independent research house to analyze the stock market. Generally the small investors depend on the advice of the brokers which often consists of

market rumors. It often results to huge losses for small share investors. Small investors are essential for a low-income and promising market like Bangladesh. The ratio of institutional-to-retail investors is still low at present in the country relatively to other promising markets. Long-term commitment can be ensured by the institutional investors. They generally focus on fundamentals that leads to the stability in the market. It is difficult to get reliable and valuable corporate information and it is one of the major problems of the capital market of Bangladesh. Some of the institutional investors have the access of that information as they have an investment unit of qualified employees. Because of the specialized analytical ability of the institutional investors, it is expected that they can evaluate the securities correctly. International standard corporate governance is still lacking in Bangladesh. Multinational corporations and institutions operating in Bangladesh often maintain a very high international standard compliance level. An important feature of the capital market is that it reflects the fair value of the securities. This is not properly present in the current situation of the capital market of Bangladesh and for that reason the market is not getting the interest of a vital segment of both foreign and local investors. While Bangladesh has public and private sector institutional investors in the economy, proprietary investment from these institutions is not considerable other than ICB (Investment Corporation of Bangladesh) that was formed in 1976 and manages several mutual funds at present. Investors are relying more on speculative analysis which results instability in the market. Fundamental analysis should be used in Bangladesh to attract long term investors who are certain about their investment and its expectations. Chittagong Stock Exchange Ltd. (CSE) is one of the two bourses in Bangladesh. Chittagong Stock Exchange has countrywide data communication network over WAN backbone and CSE also has remote access facility for stock brokers from main cities in

Bangladesh. Chittagong Stock Exchange was incorporated on 12th February, 1995. The automated trading system of CSE started on 2nd June, 1998. CSE has initiated in forming of South Asian Federation of Exchanges (SAFE). CSE has been performing vital role for the expansion of financial market in Bangladesh.

Institutional Arrangement in the Financial Market

Bangladesh Bank

The name of the central bank of Bangladesh is Bangladesh Bank. It is the monetary authority of Bangladesh. It came into existence under the Bangladesh Bank Order 1972 (Presidential Order No. 127 of 1972) which took effect on 16 December 1971.

What activities are expected to perform from a central bank of a country, Bangladesh Bank performs all those activities. Such activities include controlling the inflation and maintaining the price stability through the monetary policy, regulating the banking sector of the country and managing the country's foreign exchange and the gold reserve. Bangladesh Bank is empowered to monitor the banking system of Bangladesh. All banks are accountable to Bangladesh Bank. Bangladesh Bank has the authority to ensure the soundness of the banking system in the country. No bank can start banking business in Bangladesh without the permission of Bangladesh Bank. Also, no existing bank can open a new branch in or outside Bangladesh or shift any branch from one place to another without collecting permission/license from the Bangladesh Bank as the central bank of the country. Bangladesh Bank issues currency and the banknotes in Bangladesh. Other than the 2 and 1 taka notes, it issues all other denominations of Bangladeshi Taka. Bangladesh Bank is both the

Government's banker and the banker's bank, a "Lender of the Last Resort" like all other central bank in the world.

Commercial Banks

Commercial banks perform a vital role in the development of the economy of any country. The development of the economy depends on investment in different sectors which can increase the national output production of a country. The banks accumulate funds from the surplus units of the society and utilize these funds in productive investment. The banks give a guarantee for industrial loan from international agencies. The foreign capital comes for investment in projects to the developing countries like Bangladesh. Banks enhance the foreign trade by opening a letter of credit. Foreign currency is needed in international business. Banks can arrange foreign exchange for business transactions with other countries. The investors borrow funds from different banks to finance in the business. Banks stimulate the rate of growth through investment in productive sectors. Special funds are given to the investors to complete the projects. Banks also perform agency services for its client. Banks make rent payments, collect utility bills for the government departments, receive subscription funds and buy and sell securities. There are 38 private commercial banks are now operating in Bangladesh out of which 8 are Islamic commercial banks. There are 9 foreign commercial banks are now operating in Bangladesh.

Specialized Banks

There are 4 government owned specialized banks in Bangladesh. Out of these, 2(Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank) were established to meet up the credit requirement of the agricultural sector while the other (Bangladesh Development Bank) is

established for extending long term loans to the industrial arena of Bangladesh. The name of other specialized bank is Basic Bank Ltd (Bank of Small Industries and Commerce). There are some other development specialized banks in Bangladesh like, Karmasangsthan Bank, Ansar and VDP Unnayan Bank. Bangladesh Somobay Bank Limited (Co-operative Bank), Progoti Bank.

Non-Bank Financial Institutions (NBFIs)

There are 31 NBFIs in Bangladesh and out of which 26 are involved in leasing business. The rest of 5 NBFIs are not participating in leasing businesses in Bangladesh. Non-bank financial sector is essential to enhance the mobilization of savings. NBFIs are also important to provide support services to the financial market of Bangladesh. Generally, the banks of Bangladesh are involved in term lending activities. Inefficiency of banks in management of long term debt has already been led huge amount of outstanding loan in Bangladesh. In this connection, in order to make sure the flow of long term loans and to fulfill the credit gap, NBFIs have enormous significance in the economy. Non-bank financial institutions (NBFIs) is one of the most essential parts of a financial system. As compared to banks, NBFIs are new in the financial system of Bangladesh.

Investment Corporation of Bangladesh (ICB)

The Investment Corporation of Bangladesh was established in 1976. The functions of ICB are to underwrite the securities, provide substantial bridge financing programs and to maintain investment accounts. The objective of ICB is to expand and encourage the foundation of industrial investment. ICB also manages closed-end & open-end mutual funds & closed-end unit funds to make certain the supply of securities as well as create demand for

securities. ICB also performs in the Dhaka Stock Exchange and Chittagong Stock Exchange as dealers.

Insurance Companies

There are two state owned insurance corporations in Bangladesh. There are also 17 private sector life insurance companies and 43 private sector general insurance companies operating business in Bangladesh. Thus the total number of insurance companies in Bangladesh is 62. SadharanBima Corporation (SBC) is entitled to 50% of public sector business in Bangladesh. Insurance Corporation (Amendment) Act 1990 provides that fifty percent of all insurance business shall be placed with the SBC (which are related to any public property or to any risk or liability appertaining to any public property) and the remaining fifty percent of such business may be placed with this corporation or with any other insurers in the country. The insurance sector in Bangladesh has developed considerably with number of companies in both life and general segments. As the size of the insurance market has increased, the volume of assets of the industry has also enlarged considerably.

Microfinance Institution

The Microfinance Institutions (MFIs) are member based and represent a fast rising part of the Rural Financial Market (RFM) in Bangladesh. Microcredit programs of NGOs and Grameen Bank perform dominant role in the financial market of Bangladesh. Different formal financial institutions (nationalized commercial banks and specialized banks), specialized government organizations and Non-Government Organizations (NGOs) implement Microcredit Programs in Bangladesh. The expansion in the MFI segment in terms of total membership and the number of MFI was unique during the 1990s and continues still today.

More than 80 percent of the outstanding loan is distributed by the top 20 NGOs among NGO-MFIs. Three of them are very large and have coverage all over Bangladesh. Average interest rate is 5% which is offered by NGO-MFIs on savings to the members. Near about 90% of the clients of this segment are female. In comparison to the banking sector the loan recovery rate is very high.

The activities of Microfinance are countrywide at present in Bangladesh. The NGO-MFIs are providing financial services to the poor outside the formal banking system. As a result the issue of a regulatory framework has come to the front. The 'Microcredit Regulatory Authority Act 2006' (act number 32 of the year 2006) was enacted on July 16, 2006 by the government of Bangladesh which was effected from August 27, 2006 with a view to ensuring transparency and accountability of microcredit activities of the Microfinance Institutions (MFIs) in Bangladesh. MRA is also functioning to arrange details rules and policies to observe and supervise licensed NGO-MFIs. The rules and policies cover up financial transparency, governance issues, mode of operations and other related issues to ensure clearness and responsibility in operation.

Mutual Fund:

Mutual funds are group or portfolios of different securities such as stocks, bonds, derivatives etc. Mutual funds collect money of both individual and institutional investors allowing the funds to attain divisibility and diversification. There could be different kinds of mutual funds that vary in terms of their objectives of investment, risks and returns, underlying portfolios of shares, fees and expenses etc. In Bangladesh, the total number of mutual funds is below 20

and they account for less than 3% of market capitalization of the country (The Daily Star). Mutual funds are commonly identified as open-end mutual funds in worldwide capital markets. But the majority of the mutual funds in Bangladesh are closed-end mutual funds. Open-end mutual funds are managed by ICB and AIMS (Asset & Investment Management Services).

Bangladesh Securities and Exchange Commission

The Securities and Exchange Commission (SEC) was established on 8th June, 1993 under the Securities and Exchange Commission Act, 1993. The Chairman and Members of the Commission are selected by the government of Bangladesh and have the overall accountability to administer securities legislation. The Commission is a statutory body and attached to the Ministry of Finance of Bangladesh. The SEC has to regulate the business of the Stock Exchanges or any other securities market. The responsibilities of SEC include monitoring, regulating and registering of combined investment scheme including all forms of mutual funds. It also requires regulating and monitoring all authorized self regulatory organizations in securities market. The function is also to disallow falsified and undue trade practices relating to securities trading in any securities market. The SEC needs to register and regulate the business of merchant bankers and managers of issues, trustee of trust deeds, stock-brokers, sub-brokers, share transfer agents, registrar of an issue, underwriters, portfolio managers, investment advisers and other intermediaries in the stock market.

Stock Exchanges of Bangladesh

Dhaka Stock Exchange

Dhaka Stock Exchange is the main stock exchange of Bangladesh and it is also the first stock exchange of the country. It was established in 1954 in Motijheel of Dhaka city. In early days, when trading took place in the open outcry system, Dhaka Stock Exchange was a physical stock exchange. The conventional mode of trading was abolished and changed by a completely automated computerized Stock Exchange with the introduction of new technology. The prime functions of the DSE include the settlement of trading, providing of a screen based automated trading of listed securities, listing of companies, surveillance of market, control of the market, creation of a monthly review publication, monitoring the activities of listed companies, granting of the approval of transactions, investigation of grievances, maintenance and use of the investors protection fund, announcement of information about listed companies.

Chittagong Stock Exchange

Chittagong Stock Exchange is the first bourse which has started online screen based automated trading system and internet trading services in the country. It was established in 1991 and the exchange is located in the Agrabad area of Chittagong city.

Lease Financing in Bangladesh

Lease financing was first introduced in Bangladesh in the early 1980s. Industrial Development Leasing Company of Bangladesh. (IDLC), the first leasing company of the

country, was established in 1986 under the regulatory framework of Bangladesh Bank. It was a joint venture of the Industrial Promotion and Development Company of Bangladesh Ltd (IPDC), International Finance Corporation and Korea Development Leasing Corporation. Another leasing firm, The United Leasing Company Ltd. started its operation in 1989. The number of leasing company grew quickly after 1994 and by the year 2000, rose to 16. The leasing business became competitive with the increase in the number of companies and wider distribution of their market share.

Lease financing is important among different types of financing. It is performing an important role in the development of Bangladesh. The economy of Bangladesh is transforming from agrarian to industrial economy. The importance of leasing business is increasing day by day. Lease financing may provide more benefit than other types of financing because it has some special characteristics. Leasing opens up additional access that can help SMEs to get adequate funds at an easy term. SMEs are performing significant role in the development of Bangladesh. Sometimes it is difficult for SMEs to collect loan from the commercial banks. Lease financing can meet up the different financial needs of various sectors of an economy. It can assist to increase the output production of the country. Development of financial system can be achieved by lease financing. Both banks and leasing companies can play significant roles in influencing and mobilizing savings for investment.

CHAPTER-3

LITERATURE REVIEW

Functions, Problems and Prospects of Lease Financing in Bangladesh

Legally, a leasing company is defined as one having the business of hiring plants or equipment or of financing their hire by others. The International Finance Corporation promotes leasing as a method of financing industrial development in the developing countries as a part of its capital market development strategies.

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Lease financing, as organized in Bangladesh , operates with the following objectives: (a) to assist the development and promotion of productive enterprises by providing equipment lease financing and related services; (b) to assist in balancing, modernization, replacement and expansion of existing enterprises; (c) to extend financial support to small and medium scale enterprises ; (d) to provide finance for various agricultural equipment: and (e) to activate the capital market by operating as managers to the issue, underwriters, or portfolio managers.

The functions of lease business include lease financing, short-term financing, house building financing and merchant banking and corporate financing. In the last group of functions, the leasing business in Bangladesh moved away from regular leasing activities and is now involved in stock-market related activities such as issue management, underwriting, trust management, private placement, portfolio management and mutual fund operation. Broad capital market operations of the lease financing institutions include bridge financing, corporate counseling, mergers and acquisition, capital restructuring, financial engineering, and lease syndication. Prominent among the sectors of the economy that now receive lease financing services are textiles, apparels, accessories, transport, construction and engineering, paper and printing, pharmaceuticals, food and beverage, chemicals, agro-based industries, telecommunications, leather and leather products.

Leasing companies, however, face some problems in conducting their business in the country. The relatively slow growth of the demand side compared to the fast growth of the lease business is one such problem. This leads many leasing companies to operate in partial capacity. The culture of loan default that prevails in the country is also a deterrent. Leasing companies often find it difficult to raise funds through short or long term borrowing from money and capital markets. They are hard pressed to deal with the financial assets because of the laws of the country, which are also not fully enforceable.

Leasing business is gaining increased importance in the economy of Bangladesh with its gradual transformation from an agrarian to industrial one. The government periodically revises the trade and industrial policy to create a liberal business environment for domestic and foreign investment. Increased investment in the energy sector as well as the power,

transport, telecommunications, water and sanitation and safe disposal of wastes are expected to bring further opportunities for leasing industries (BANGLAPEDIA).

Non-Bank Financial Institutions in Bangladesh

M.N.Ahmed and M.I.Chowdhury in their paper “Non-Bank Financial Institution in Bangladesh: An Analytical Review” states that Non-Bank Financial Institutions(NBFIs) are gaining increased popularity in recent times. Though the major business of most NBFIs is leasing, some are also diversifying into other lines of business like term lending, housing finance, merchant banking, equity financing and venture capital financing. NBFIs in Bangladesh will be able to play a more significant role in financial intermediation if appropriate support is given.

Commercial banks worldwide are directly or indirectly involved in activities such as leasing, hire purchase, term lending, house financing and capital market operation (M.N. Ahmed and M.I.Chowdhury, 2007). In developed countries commercial banks are also actively involved in different activities other than banking. In Turkey, banks are empowered to arrange lease finance by virtue of special laws relating to this particular activity. Following the deregulation of the local banking system as well as diversification of business, a number of banks in Taiwan established their own independent leasing companies (Chen 2001). In India, commercial banks are permitted to transact leasing business through subsidiaries. In Bangladesh, commercial banks started leasing operation effectively in 1995 (Banarjee and Mamun, 2003). At present, almost all major private commercial banks are involved in non-bank financial operations.

Operating by banks in what have been traditional non-banking areas is often questioned by NBFIs although both can act as complementary to each other rather than being competitors. Bangladesh Lease and Finance Companies Association (BLFCA) alleged that commercial banks of the country are engaged in non-bank finance activities within the existing banking rules, which is posing difficulties for non-bank financial institution (BLFCA Year Book, 2004). This is because by having access to cheaper rate funds, banks have a comparative advantage over NBFIs that does not ensure proper competition for both. It is argued that if banks continue in leasing business then the default culture of banking system may also infect the leasing industry (Choudhury, 2001).

M.N. Ahmed and M.I. Chowdhury (2007) identify some challenging issues for NBFIs in Bangladesh. These issues are sources of funds, cost of fund, asset-liability mismatch, investment in high risk portfolio, product diversification, competition with banks, lack of human resource, weak legal system and lack of secondary market. NBFIs has the restriction to collect public deposits for less than one year which creates uneven competition with banks as banks are also exploring the business opportunities created by NBFIs with their lower cost of fund. The cost of fund for NBFIs is higher than banks because of huge amount of deposit collection. Banarjee and Mamun (2003) showed that weighted average cost of fund for the leasing companies is always positioned much higher than that of banks. According to their study, cost of funds for leasing companies varied between 8.4 to 15.3 percent while that of banks was between 8.5 to 9.5 percent. Asset-Liability mismatch is another cause of concern for NBFIs. Demand for funds to meet the increasing lending requirements has increased many times. The availability of funds has become inadequate as NBFIs are mostly dependent on loans from commercial banks. International Finance Corporation (1996) has observed that

leasing companies are in a great dilemma while managing the mismatch between their asset and liability. According to IFC, the average weighted life of the company's business portfolio should be less than the average weighted life of its deposits and borrowing in its operating guidelines for a leasing company. In order to sustain the high cost of borrowing, NBFIs may be inclined to invest in the high return segments, which can expose them to commensurately higher risk (M.N. Ahmed and M.I. Chowdhury, 2007). Almost all the leasing companies concentrated on equipment leases to BMRE (Balancing, Modernization, Replacement and Expansion) units only. New industrial units are hardly brought under the purview of leasing facilities. Diversifying the product range is a strategic challenge for NBFIs in order to become competitive in the rapidly growing market (M.N. Ahmed and M.I. Chowdhury, 2007). Although the default culture has not yet infected NBFIs to any major extent, they face difficulties in recovering the leased asset in case of a default.

M.N. Ahmed and M.I. Chowdhury suggest some areas to overcome the existing conditions of NBFIs. Exploring alternative sources of funds, product diversification, enhancing capital market activities, issues of taxation, market segmentation are the key issues to develop the condition of NBFIs in Bangladesh according to them.

Lease Accounting Practices in Bangladesh

As the financial sector of Bangladesh is enlarging gradually, Non-Bank Financial Institutions become prominent alongside the banking sector. Most NBFIs are doing leasing business in Bangladesh. The Institute of Chartered Accountants of Bangladesh (ICAB) adopted a revised accounting standards No. BAS 17: (Leases) on 18 November 2003 effective from January 1, 2004. T. Nasreen and M.A. Jahan (2007) in their paper "Lease Accounting Practice of

Leasing Companies in Bangladesh: A Lessor's Disclosure Perspective" states that the degree of correspondence between the standard per BAS 17 and actual reporting by the leasing companies in Bangladesh is not satisfactory. The practice of those companies which are not following BAS-17 for leasing may lead to fraudulent financial reporting and fail to enhance the reliability of the published information.

Uddin, Salim(2005) in his paper " IFRS/IAS vis-à-vis Lease Accounting: Bangladesh Perspective" has identified that absence of accounting standards for lease transactions was the main reason for deviation of actual practice of lease accounting from improved advocated by BAS.

Level Playing Field between NBFIs and Banks

Imam (2005) in a paper "Level Playing Field between NBFIs and Banks" of a program by ADB named "Preparing the Financial Market Governance Program" has identified the legal and regulatory framework, sector-wise profile, structure and performance of NBFIs in Bangladesh, sources of funding for NBFIs and the overall scenario of NBFIs in the country.

The leasing industry which commenced in the mid-80's with only two pure leasing companies has grown significantly with about 28 Non-bank financial institutions (NBFIs) actively competing for business in the financial market up to 2005. Out of 28 NBFIs, 22 were specialized in lease business and out of 22 leasing companies; only 8 were listed on the exchanges at that period. Since its introduction, leasing has been popular and convenient for both large and small business, and this resulted in an impressive growth of annual lease execution volumes over 20 years up to 2005.

Initially NBFIs were regulated by the Bangladesh Bank under chapter-5 of the Bangladesh Bank order 1972. With the initial success of the NBFIs, sudden increase of numbers and the significant contribution to the national economy of Bangladesh as an alternative source of finance, the government felt the necessity of having a legal framework to license, regulate and monitor the activities of NBFIs and hence enacted the Financial Institutions Acts, 1993. NBFIs are required to submit monthly, quarterly, semi-annually and annual reports on their performance to the Bangladesh Bank. Prior approval has to be obtained from the Securities and Exchange Commission for issuance of shares, debentures and bonds. Leasing companies are allowed to import lease equipment in their own names. The minimum capital base of any NBFIs licensed under the Financial Institution Act, 1993 of Bangladesh Bank is BDT 250 million or 6% of the total liabilities, whichever is higher. It becomes mandatory for the leasing companies to follow financial method of accounting for financial reporting, under which the leased assets are shown as fixed assets in the books of the lessee with a corresponding liability and future rental receivables shown as receivables in the books of leasing companies. A lessor approved by National Board of Revenue is entitled to some tax exemption. The leasing business is becoming more competitive as the arrival of new NBFIs, particularly leasing companies and also some banks are offering lease services. The activities of NBFIs have witnessed a phenomenal growth from the period of 2000 to 2004. The business volumes and the balance sheet sizes have increased a lot. Due to effective credit management policies, the collection rate of NBFIs is also very impressive. The country leasing industry, in terms of annual lease execution, has grown significantly over period of time. This growth has reflected the preference and gradual shift towards lease finance by the houses and investors due to faster service, tax benefit, relaxed or no collateral requirement

and simplified documentation. The cost of funding continued to increase except for 2004 and became constraints for the growth of NBFIs. NBFIs utilize funds from a wide array of sources including financial instruments, credit lines and call loan from banks and financial institutions as well as deposits from institutions and public. The excessive dependence on banks has had an extremely adverse impact on the leasing industry in the first half of 2005. Due to liquidity crunch in the financial markets, the average rate of interest rose from the existing rate of 11-12% to 12-14%. For banks, the public deposit is one of the major sources of funds and therefore provides an indication of the cost of fund. The banking sector has played the dominant role in financing the investment requirements of the private sector in Bangladesh. Banks are exposed to asset-liability management risk arising from long term loans with shorter term deposits. The competitive environment for NBFIs is more challenging, as they have to compete with banks which have low cost and even zero cost funds in their funding basket. NBFIs are mostly dependent on the credit lines of commercial banks, the availability of which is becoming inadequate day by day. Entry of commercial banks and Development Financial Institutions into the business of leasing and higher purchase make the condition more difficult. The NBFIs have to recourse the capital market for raising funds. To sustain the high cost of borrowing, the NBFIs have increasingly resorted to high risk and high return segments for deployment. Difficulties in the recovery of leased assets in the case of default combined with the delays in court procedures is another cause of concern. In the event any financial asset is repossessed from the default client, the disposal of the same is another cause of concern because of lack of established secondary market. Lending and leasing are two different mode of financing and their concept and procedure particularly the accounting and taxation system are quite different. Imam(2005) in his paper

identifies that NBFIs in Bangladesh are facing problems and difficulties to compete with Banks.

Present Condition of Leasing Institutions in Bangladesh

Mr. Sajjadur Rahman has written an article in the daily newspaper- “The Daily Star about lease financing in Bangladesh titled as “Paradigm Shift in Leasing”. He states that leasing and finance companies in Bangladesh have deposit and credit products, which are understood by people to be the core business of banks. Leasing companies also undertake stock market operations including merchant banking and brokerage services, just like banks. The NBFIs offer retail products such as car loans, mortgage loans, credit cards, SME financing etc. though these are not their core activities for leasing companies. They are supposed to focus on lease rather than taking on banking according to Financial Institutions Act, 1993. According to the article there are 29 financial institutions in Bangladesh of which 21 are listed on the stock exchanges. These institutions have distributed Tk.18, 000 crore. Areas of investment include textiles, garments, transport, real estate and housing, power and energy and services. At present, NBFIs earn the major part of their income from the stock market. Bangladesh Leasing and Finance Companies Association (BLFCA) data show that lease financing has been declining continuously. Of their total investment portfolio, 80 percent was dedicated to leasing five years ago. It came down to 55 percent in 2009 and 40 percent at the end of 2010. At present condition leasing companies earn more from capital market operations than their core business because of withdrawal of the depreciation allowance and some other measures including tax issues. The government withdrew the depreciation allowance on lease assets in the fiscal budget 2007-08. Such allowance means that on all

leasing transactions, the owner of any asset should be entitled to a depreciation allowance on machinery, plant, vehicle or furniture given to a lessee. It has been reported on the article that some other factors hurting the growth potential leasing industry are high tax rates, double taxation in case of subsidiaries and limitation on extending credit facilities to subsidiaries. Restriction on collecting long term deposits is also seen as a barrier to the industry. Cost of funding by leasing is significantly higher than the banks. Banks are the main source of funds for the financial institutions. It has been proposed by BLFCA that the dividend receivable from a subsidiary or associate company should be exempted from further taxes, provided that the subsidiary company has paid income taxes once on its earnings.

Constraints of SME Financing in Bangladesh

The growth of small and medium enterprises (SME's) has a positive impact in the growth of output and employment creation in the context of a developing country like Bangladesh. Rikta N.N reported that the major constraints of SME financing by banks and financial institutions are the inadequate knowledge and ability to formulate proper project proposals for seeking institutional finance, collateral based lending procedures of banks and financial institutions that are not suited for SMEs, complex bureaucratic procedures and corruption. Lease financing could play a vital role to solve the financing problem for SMEs. According to Rikta N.N, in Bangladesh, the limited access to finance is one of the major areas of concern for SME development. Institution to serve this sector needs to have the financial ability to accept the lending risks along with access to proper funding that matches the clients necessities. The financing approach of the commercial and development banks in Bangladesh is mostly traditional that does not suit the special characteristics of SMEs. They mostly

subscribe to the view that collateral and third party guarantee minimize risks for the lenders, she reported.

Leasing to Support Small Businesses and Micro Enterprises

Joselito Gallardo, 1997 in his policy research working paper entitled “Leasing to Support Small Businesses and Microenterprises” which has been published by Financial Sector Development Department of The World Bank states that the banks should maximize opportunities to expand the use of leasing as an approach to financial intermediation in bank projects to promote the development of small businesses and microenterprises. He in his paper intended to enhance the bank’s awareness of leasing as an additional financing technique that can expand the access of upper-strata microenterprises and small businesses (MSBs) to medium term financing for capital equipment and new technology. The promotion is that MSBs in general, is a good means of reducing poverty insofar as their development would increase the demand for unskilled labor and generate additional household income. The development of MSBs would benefit from opening up additional institutional channels for financial services. Joselito Gallardo, 1997 states that as a financing technique leasing has proven effective in overcoming barriers posed by interest rates ceilings and collateral requirements of conventional commercial bank financing. Leasing can be a source of short to medium term financing for equipment needed by MSBs to expand operations. The operations of MSBs are cash flow oriented and their projects can offer new market opportunities for leasing companies. Leasing can be able to provide new ways to acquire the use of an asset as an alternative to outright purchase using borrowed funds which are generally in very limited supply.

Leasing is based on the proposition that profits are earned through the use of assets rather than from the ownership. A basic principle in medium to long term lending is that cash generated by investment that is partly financed should be the primary source of repayment. The collateral taken as security for the loan services is a secondary source of repayment in the event that the borrower is unable to repay the loan from business operations. For short term loans, the asset conversion cycle, rather than long term profitability of the business and cash generation, is more critical to assessing the probability of repayment. Conventional asset based loans offered by banks focus on loan repayment by the borrower from both a primary source (cash flow generation or asset conversion cycle) and a secondary source (credit enhancement and collateral). In contrast, leasing is more intensely focused on the lessee's ability to generate cash flow from business operations to service lease payments because the lessor-financier retains ownership of the asset during the term of the lease (Joselito Gallardo, 1997). In his paper he states that leasing enables borrowers without well developed balance sheets or credit histories (especially new or small business entities) to access the use of capital equipment in cases where they would not be able to avail of and qualify for traditional commercial bank lending. In his policy research working paper Joselito Gallardo(1997) describes that leasing can become an important financing technique for enterprises in the MSB category because of the way business entities finance operations from three main sources of capital: internally generated cash, bank loans and capital markets. In most developing countries capital markets are relatively undeveloped and banks often prefer to lend to larger, well-established businesses that have a profitable track record and can offer stronger security. Also banks are often unable or unwilling to undertake term lending. New or small business entities without strong collateral, or which operate in countries with weak

or absent laws for enforcing rights to take possession of security, generally have limited access(if any) to traditional bank lending. Leasing or supplier's credit may be the only recourse to external financing, because ownership of the asset financed does not transfer to the borrower until the lease obligation has been fully discharged.

Lease Financing in Different Countries

Conditions of Lease Financing in Rural Areas of Developing Countries

N. Ajai, K.T. Renate and M. Annabel in their paper "Leasing-An Underutilized Tool in Rural Finance" stated the condition of leasing in rural areas of some developing countries. Leasing offers quite a few advantageous over loans for lessors and lessees. For lessees, the most vital benefit is access to a source of finance. For farms and other rural enterprises with no access of bank loans, this could be their only ways. In addition to access, leases may be more reasonable than loans because down payments are lower than bank requirements and additional collateral is rarely required. From the lessors point of view, the lessor has a stronger security position compared to that of the lender. Leasing is also expected to incur lower transaction costs compared to loans. Transaction cost involve in creating, perfecting and enforcing security interests can be costly because of poorly functioning asset registries and inefficient judicial systems particularly in rural areas. The lower transaction cost for leasing is likely to benefit both lessors and lessees. Tax benefits, the second potential benefit in leasing, are not available to loans , but these are generally less relevant in the rural context in developing countries.

As for all economic activities, an enabling environment is important for the development of leasing sector. The two critical elements are a clear legal basis and minimal regulation. Use of internationally accepted accounting standards and a tax code that is not biased against leasing would also enhance the development of the leasing sector. Elements of a good legal framework for leasing include: clear definition of a lease contract, leased assets and responsibilities and rights of parties to a lease contract; clarity in allocating responsibility for liability of third- party losses arising out of the operation of leased assets; priority of lessor's claim over leased asset; and a framework for easy and fast repossession of leased assets (N.Ajai, K.T. Renate, M. Annabel).

For an enabling regulatory environment, two key issues are whether leasing warrants prudential regulation, and whether institutions subject to prudential regulation (particularly banks) should be permitted to provide leasing services. It is generally accepted that leasing companies should not be subject to prudential regulation if they do not obtain public deposits. As for the latter, it has been argued that they should be permitted to provide finance leases because these are not significantly riskier than loans. ((N.Ajai, K.T. Renate, M. Annabel).

N.Ajai, K.T. Renate and M. Annabel makes four recommendations for World Bank involvement in enhancing access to leasing in rural areas of developing countries. First, World Bank should increase the availability of information on the demand and supply of leasing (by banks and other institutions) in rural areas. Analytical works on rural finance should incorporate assessment of access to leasing. Second, World Bank should incorporate operational support (technical and financial assistance) for leasing into rural finance projects

and other projects that have rural finance components. Credit line for rural finance should not discriminate between lenders and lessors, and projects with policy reform components should include reforms specific to leasing. Third, World Bank should also consider creating, in co-operation with IFC, regional leasing development facilities along the lines of RLDG (Russian Leasing Development Group) and CALP (Central Asia Leasing Project) to provide technical assistance for both policy reforms and leasing providers. Fourth, developing collaborative arrangements with other development agencies (such as the USAID and DFID) and development investors such as the Netherlands Development Finance Company (FMO) and the German Development and Investment Company (DEG) that have significant experience in supporting leasing development could also be beneficial. This could be done within existing and new projects (N.Ajai, K.T. Renate, M. Annabel).

Lease Accounting in UK Retail Sector

Goodacre A. (2001) in his paper “The potential impact of enforced capitalization in the UK retail sector” states the potential economic consequence of the G4+1 proposed changes to lease accounting by examining companies in UK retail sector over the 1994-99 period. The magnitude of the impact of lease capitalization is assessed by examining the effect on nine key accounting ratios that are used in decision making and financial contracts.

Operating lease finance is shown to be very important in the retail sector, with a long term liability approximately 3.3 times higher than on- balance sheet long term debt; by contrast, finance leases are immaterial. Operating leased asset, the major part of which is ‘land and buildings’ (98%), represents a significant portion (28%) of reported total asset. Capitalization of operating leases would have a major impact on all nine ratios. Further, the ranking of

companies changes markedly for asset turnover, interest cover and the three capital -based gearing measures and especially for general retailers (Goodacre A., 2001)

Leasing represents a significant source of finance for many companies. Total lease finance used by non-financial industrial and commercial UK listed companies was estimated in 1994 to approximately £ 71 billion. In the UK, leasing was governed by accounting standard SSAP 21 ‘Accounting for leases and higher purchase contracts’ which was issued in 1984. Since its introduction, there has been a considerable growth in the use of off-balance sheet operating leases and this has encouraged accounting standard setters to review the working of the standard and to propose major changes. This culminated in a G4+1 discussion paper ‘Leases: Implementation of a New Approach’ which adopts a ‘property rights’ perspective and proposes that all leases should be recognized on the balance sheet. As a result of the different accounting treatments, the classification of leases has important implications for reported levels of indebtedness and standard performance measures. Profit margins, return on assets and gearing measures would all be significantly affected if operating leases were required to be recognized on the lessee’s balance sheet rather than merely disclosed in a footnote. The use of operating leases, and therefore also the potential impact of lease capitalization varies both across broad industry sectors and within each sector.

Rural Leasing in Pakistan, Uganda and Mexico

Nair A. and Todd R.K. in their paper “Buffalo, Bakeries, and Tractors: Cases in Rural Leasing from Pakistan, Uganda, and Mexico” assessed the relevance and potential of rural leasing as a financing tool. The paper suggested that enhanced use of leasing in rural areas could be supported, because this practice would overcome some of the existing constraints in

providing rural credit for investment financing. The paper reinforces the case for supporting the development of leasing services in rural areas by presenting the case studies of three leasing companies.

The three case-firms are commercial providers serving three major rural market segments. Network Leasing Corporation Limited (NLCL) in Pakistan focuses on micro and small entrepreneurs. Its lease portfolio in 2004 was US\$11.6 million, 21 percent of which was estimated to be in rural areas. Development Finance Company Uganda (DFCU) Leasing Company Limited, the largest provider of leases in Uganda, estimated to have a market share of nearly 80 percent. It focuses on small and medium enterprises. The companies lease portfolio in 2004 was US\$25.7 million and 20 percent of this was estimated to be in rural areas. Arrendadora John Deere (AJD) is wholly owned by John Deere Capital Corporation, USA. It is the largest provider of farm machinery leases in Mexico. The company's core clientele includes medium and large farming enterprises. Its lease portfolio in 2004 was US\$74 million, 85 percent of which was farm equipment leases.

Finance leases are close substitutes for loan as asset financing tools. For organizations that provide asset financing, leasing offers several advantages stem from the difference in the structure of the two forms of financing as well as the regulatory framework governing them. In a lease, the lessor owns the asset; in a loan, the creditor only has a lien over the asset. Transaction costs are typically lower to contract a lease than to issue a loan. Repossessing a leased asset is usually easier than taking possession of loan collateral (in case of default). While the former scenario often does not require intervention of civil courts, the later does. Leasing companies are not subject to the same prudential regulations as banks, or they are subject to less costly regulations. The case-firms have served a steadily increasing

number of clients, a significant portion of which are rural, in the four to five-year period for which data were analyzed. They have done this with little or no lease losses; performance of the rural portfolio is reported to be as good as or better than the urban portfolio and all three companies are profitable. Two leasing companies are listed in their respective national stock exchange. The most significant benefit to the clients of the case-firms: a significant portion of clients are accessing finance from a formal financial institution for the first time. Several have obtained more than one lease from the case-firms, suggesting that the access is not a one-time event. Factors reported by clients for using the services of the case-firms include no collateral or less additional collateral required, less time for processing and ease of approachability of the provider.

The case studies suggest that lease financing only partially overcomes the typical constraints to credit financing. Two of the three case- firms take additional collateral; this practice is different from the typical lease transaction in developed economies in which the leased asset itself is considered adequate security. The security deposit or down payment required by all three companies is also higher than that typically demanded in developed economies.

Five lessons specific to rural leasing are drawn from the case studies:

In rural areas, leasing is a means to acquire productive assets. All rural leases provided by the leasing companies study are finance leases. Rural enterprises of different sizes benefit from leasing, but a provider may not be able to serve enterprises of all sizes. Non-farm enterprises account for a significant proportion of rural leases. All three case-firms are profitable. However, they all have benefited from access to government or donor funds, particularly to expand their rural operations. A rural leasing company may not be viable. In two of the three

case-firms, the larger portion of clients is urban. Leasing is a specialized financial activity, economies of scale, cost, and risk factors may require that , in most economies, leasing companies have larger urban operations.

The three case studies show that rural leasing particularly financial leasing can be a useful tool to finance the acquisition of broad range of rural assets, particularly in economies in which rural credit markets do not function well. Development of rural leasing markets requires an enabling policy environment and institutional-level initiatives. In this paper it is advised that World Bank and other international development agencies would be well-advised to explore means to support more widespread use of rural leasing.

Lease Financing Decisions in German SME

Constantin F. Slotty in his paper “Financial constraints and the decision to lease- evidence from German SME” tries to prove that in particular financially constrained firms lease a higher share of their assets to mitigate problems of asymmetric information.

The share of total annual lease expenses attributable to either finance or operating leases is considerably higher for financially strained as well as for small and first growing firms – those likely to face higher agency –cost premiums on marginal financing. It has been reported in the paper that the results confirm the substitution of leasing and debt financing for lease firms. No evidence has been found in this paper firms use lease as an instrument to reduce their tax burden.

Corporate Capital Structure and Lease Financing Practices of Manufacturing Firms in Nigeria

Kurfi A.K. in his paper “Corporate Capital Structure and Lease Financing Practices of Selected Manufacturing Firm in Nigeria” examines lease financing practices and corporate capital structure of selected Nigerian manufacturing firms. The study determines the extent to which the firms employ lease financing as a means of digital asset acquisitions and the impact on corporate capital structure. The findings of the study reveal that: leasing is a veritable alternative for capital assets acquisitions and that lease constitute about 50% of their total fixed assets because most of the lease contracts are structured with provision for ultimate purchase by the lessee after the primary lease term to finance capital assets acquisition. The paper recommends that appropriate legislation should be promulgated to boost leasing business in the country and that lease financing should be encouraged to enhance the gearing ratios of the enterprises and a vibrant leasing industry should be created that would make productive assets easily leaseable to all sectors of the Nigerian economy in order to enhance economic growth and development.

Lease Financing in Russia

Dr. A. Yosupova in his paper “Lease Finance Development in Russian Transition Economy” describes about the condition and history of Russian leasing. He stated that lease deals were used for some types of imported equipment in soviet times. Navy Ministry performed as a lessee of used ships and tankers, leased planes etc. Special leasing company “Baltlease” was established by promstroibank at the end of eighties. Several examples of lease operations can be found in the practice of other socialist countries also. They could not be called real leasing

as they were totally controlled by the state, issue of ownership right were absolutely ignored under the environment of administrative economy. Real development of leasing in Russia started only after 1990. Commercial banks could be considered as pioneers of Russian leasing. They began to offer lease services to their clients in 1989. It is important to point out that banks acted not only as financial agents but also as intermediaries that helped to connect potential lesser and lessee together. This stage could be called as period of spontaneous short-term market interest. At this time the idea of leasing began to become familiar to business agents. Later at end 1992 lease activities declined and remained at almost zero level till 1994. Federal government made a number of decisions on leasing development in agriculture at that time. These decisions mainly concerned finance of lease deals from state budget and were very close to central administrative financing. It is quite natural therefore that these attempts could not help to develop leasing in Russia. New stage of leasing development started in 1994, this stage could be called the period of “official approve” that means that special legislation for leasing activities was introduced in business practice. This period lasts till now days through which we can observe some increases and decreases of lease activities. The lease market is developing rapidly in Russia. Business firms, federal and local state authorities are interested in leasing. Lease finance is about 7-8% of total investment which is not bad for Russia but far from average level in well developed countries. The main pictur of leasing history in Russia differs from other European countries where initial impulse to lease finance is related to expansion of American banks. Russian leasing development is connected with internal factors. Banks also played very important role but those banks were domestic ones. In most European countries there was no need for special lease regulation from state in order to stimulate lease activities. Usually in market

economy countries general measures for investment stimulation were effectively for lease development. Russian case is different. There is strong need for state support but such support shouldn't take administrative form. Other factors that are traditionally related with lease development are also ignored in Russia (Dr. A. Yosupova).

Pakhtusov (2006) in his paper "Leasing in Russia: A Case Study" describes the condition of lease financing in Russia. As Russia goes through the process of converting from a command to a market economy, many old business processes and standards had to be terminated and new methods implemented. Leasing is an example of a technique long in use in more developed economies that has been transplanted to Russia, with changes made to reflect the particular circumstances there. In the paper Pakhtusov (2006) examines the stage of leasing in Russia by concentrating on the experiences of one leasing company named Volgopromleasing. Interest rates and inflation rates that fluctuate widely and are sometimes extremely high, as well as a legislative environment that may be expected to change are some of the challenges faced by the firm. However compensating opportunities exist: many Russian firms desperately need to upgrade their equipment, the government is strongly interested in promoting rapid economic growth, and the legislation currently in effect favors leasing over other methods of acquiring fixed assets. Although leasing has the potential to assist Russian firms in modernizing and growing , and therefore, to help the Russian economy in its effort to rapidly move to a new market economy, this can only occur in conjunction with other economic initiatives that also provide for growth and stabilization.

Leases and Debt: Complements or Substitutes?

Deloof et al. (2007) investigates the lease-debt relationship for Belgian small and medium sized enterprises (SMEs). It was suggested in the traditional theory that leases and corporate debt are substitutes: both leases and debt are fixed contractual obligations that reduce the firm's debt capacity. More use of lease should therefore be associated with less non-lease debt financing. However, some empirical studies find that for large firms, leases and debt are complements. A theoretical explanation for this so-called "leasing puzzle" is based on the tax advantage of leasing over debt. However, in Belgium, tax differences between lessor and lessee do not affect the choice between leases and debt, because the lessee is considered to be the fiscal owner of assets. The lessee may write off these assets for tax purposes, and the interest part of lease payment are deductible from his taxable income. Lease and debt can therefore be expected to be substitutes. In this paper this hypothesis is tested for a sample of 5,595 firms –year observations for 1,119 Belgian nonfinancial SMEs in the 1995-1999 period. The results indeed provide strong support for the substitution hypothesis: more debt is associated with fewer leases.

Capitalizing Non-Cancelable Operating Leases

Bennett et al. (2003) presented the results of the financial statement impact of constructive capitalization of non-cancelable operating leases for 38 firms listed on the New Zealand Stock Exchange. The results suggest that operating lease capitalization will have a material impact on reported liabilities. This results in greater leverage. Furthermore, while the impact of lease capitalization on leverage is well known, the results show that the lease capitalization also decreases liquidity and profitability ratios.

The Effect of Firm Characteristics on the Use of Percentage Retail Leases

Chun et. Al. (2003) supports the prediction that retail firms with higher debt-equity ratios are more likely to adopt percentage lease agreements. The idea is that a retail firm may choose a percentage lease agreement over a fixed lease agreement because percentage lease payments are charged as an expense when incurred and not reported as a future lease liability, while fixed lease payments are reported as a future lease liability. This analysis was motivated by the theory contained in Watts and Zimmerman (1986). This setting has been adapted to the choice of percentage lease payments, specifically nothing that percentage lease payments can create a significant hardship for lessee firms if their net profit were to decline. The empirical prediction of the analysis was that retail firms with higher Debt/ Asset ratios are more likely to be financially constrained or more likely to be closer to debt covenant constraints , and so, are more likely to choose percentage lease payments.

Capturing the Benefits of Operating and Synthetic Leases

Duke at. el. (2006) described that an important leasing strategy that CEOs, CFOs, and treasures of a firm should know about. By applying constructive lease capitalization on the operating leases of several firms, the authors show that companies can hide many liabilities from financial reporting and they can also enhance net income, retained earnings, and key financial ratios – all by reporting leases as operating leases instead of capital leases. A synthetic lease allows a firm to report leases as operating leases on financial statements but claim the capital lease status for tax savings. Thus a synthetic lease can be structured to exploit the benefits of both lease treatments. The results of the article indicated an average cumulative tax savings of \$ 674.6 million for the sample firms had their leases been

structured as synthetic leases. In addition, four of the six firms would have experienced tax savings for the test year had synthetic leases been arranged instead of the operating leases. The tax benefit is especially significant for the firm whose income would have been more doubled had synthetic leases been structured instead of operating leases.

Corporate Real Estate Sale and Leaseback Effect

Gronlund et al., (2008) studied market reactions of publicly traded European companies' real estate sale and lease back announcements during 1998-2004. The study was one of the first ones to study the sale leaseback impact on corporate value with a pan-European data. It has been found that the sale and lease back announcements have an average positive impact to firm's value which is in line with the previous studies. However, it has also been found that the positive effect is mainly caused by the deals with high transaction value to company market value ratio. Smaller transactions do not create on average any abnormal returns. The results support the hypothesis that the positive sale and leaseback announcement effect is a consequence of revealed hidden value of the company's assets. Sale and leaseback can also be seen as a mechanism for revealing the hidden value of company's assets to the market. It is widely accepted notion in finance that leasing is substitute for debt. However, earlier studies have found out that the price reaction to debt announcements have been on average negative. Finding a positive market reaction associated with sale and leaseback announcements indicate that sale and leaseback transactions create some gains for shareholder over debt. There are several potential sources for the wealth creation. A common explanation for such gains is the tax savings created through the transaction. Another

explanation for such gains is the hidden value hypothesis which suggests that the sale and leaseback transaction reveals hidden value locked in corporations' real estate holdings. One can also argue the transaction gives the company a possibility to reallocate the capital tied in real estate to higher yielding core business, which makes the use of the corporate capital more efficient.

Lease Financing and Corporate Governance

Robicheaux et al. (2008), examined whether firms that attempt to control the agency costs of equity through strong governance structures, including Chief Executive Officer compensation alignment and board structure, are more likely to use an agency cost reducing debt structure, such as leasing. Lease financing is a well-recognized mechanism for reducing the agency cost of debt. For a sample of large firms, it has been found that firms who use more incentive compensation and have more outside directors also tend to use more lease financing, suggesting these agency cost reducing measures are complements. It has been examined in this study that whether firms attempting to reduce the agency costs resulting from the shareholder –manager relationship also attempt to reduce the agency costs resulting from the shareholder-debtholder relationship. In particular, the study was interested in determining whether strong corporate governance structure, defined as executive compensation that aligns shareholder and managers interests and a structure for the board of directors that provides strong monitoring, and agency costs reducing debt structures, defined here as leasing use, are complements or substitutes. The analysis suggests a complementary relation between operating and total lease.

CHAPTER-4

METHODOLOGY

The study have used several inferential statistical tools and techniques including Data Envelopment Analysis (DEA) and Factor Analysis Model. Data Envelopment Analysis (DEA) has been used to measure the allocative efficiencies, cost efficiencies and as well as cost efficiency of randomly selected 17 leasing companies for the period of 2006 to 2011. Factor Analysis has also been used to discover the reasons of preference of leasing over term financing by some of the borrowers in Bangladesh. Normal test has been used to identify whether leasing substituting term financing in the context of Bangladesh for different firms or not. Reasons and problems of competition have been measured by key informant's interview and lending institutional survey. Key informants interviews have been used to identify the reasons behind the absence of operating lease in Bangladesh and the prospects of operating lease in Bangladesh. Herfindhal-Hirschman Index (H.H.I) has been used to measure the competition between banks and leasing companies. Weighted Average Cost of Capital (W.A.C.C) of leasing companies and banks have been identified.

Data Set:

The period of 2006-2011 data has been collected from 17 leasing companies in Bangladesh for input oriented DEA. Data of leasing companies have been collected from the annual reports of the specific leasing companies operating in Bangladesh.

Efficiency scores of the 17 leasing companies in Bangladesh have been calculated. Three inputs and two outputs have been used for input oriented DEA efficiency measurement. The inputs are Deposits and Borrowings (x_1), Employees (x_2) and Fixed Assets (x_3). The outputs are Interest Revenue (y_1) and Non-interest revenue (y_2). The allocative efficiency measurements as well as cost efficiency measurements require price data for inputs. The prices of inputs are Interest Expense/Deposits and Borrowings (p_1), Salary and

Allowance/Number of Employees (p_2) and Depreciation/Fixed Assets (p_3). All the input and output data have been collected from published annual reports from 2006 to 2011.

In this research by using Data Envelopment Analysis, the technical efficiency, allocative efficiency and cost efficiency have been measured for the 17 leasing companies from the year of 2006 to 2011 assuming variable return to scale and constant return to scale. Optimum level of inputs for efficient production assuming both variable return to scale and constant return to scale have been identified in this research study by using D.E.A. Technical Efficiencies and its decompositions have been identified for the period of 2006 to 2011 by using D.E.A. By D.E.A software, output slacks and input slacks have also been identified in the study.

Reasons of preference of lease financing over term financing by some of the borrowers in Bangladesh have been discovered by factor analysis. A questionnaire consisting of different variables (related with the preference of the leasing companies over banks) has been given to 405 firms (which have taken lease financing from leasing companies or banks) to rank these variables according to their significance.

Key informants interviews have been taken to identify the reasons of competition between banks and leasing companies and to discover the challenges faced by leasing companies in general in Bangladesh. Reasons of preference of leasing over term financing, the reasons behind the absence of operating lease in Bangladesh and the prospects of operating lease in Bangladesh have also been discovered by key-informants interview. The comments of the key-informants have been presented qualitatively.

Demand side analysis has also been conducted by analyzing the capital structures of 50 firms for 5 years (2007-2011) to identify whether lease financing is the substitution of term loan in Bangladesh or not.

Survey Area

The survey area of this study is 17 leasing companies for measuring efficiency by Data Envelopment Analysis (D.E.A). Total of 405 firms have been taken out of which 300 firms have taken lease from 15 leasing companies and 105 firms have taken lease from 15 banks to identify the factors which are related for the preference of lease financing over term loan by some of the borrowers in Bangladesh by factor analysis. Out of 405 firms, 20 firms have been taken from each leasing company ($20 \times 15 = 300$) and 7 firms have been taken from each bank ($7 \times 15 = 105$). Persons involved in the management of different leasing companies and banks have been selected as key-informants about the subject of lease financing. M.D/D.M.D of randomly selected 15 banks and 15 leasing companies have been asked about different questions related with the different objectives of the study. 30 persons from 15 leasing companies of which 2 persons from each leasing company and 30 persons from 15 banks of which 2 persons from each bank are selected for the key-informants interview. 50 firms which have taken lease from different leasing companies have been selected from the list of different leasing companies to analyze their capital structure of 5 (2007-2011) years to find out whether leasing is the substitutes of term financing in the context of Bangladesh or not.

Sample Size and Sampling Design

18 Leasing companies and 18 banks have been selected by following simple random sampling method for H.H.I and 15 leasing companies and 15 banks have been selected

randomly to find the W.A.C.C. M.D/D.M.D and also one high official of randomly selected 15 banks and 15 leasing companies have been asked about different questions related with the different objectives of the study. 30 persons from 15 leasing companies of which 2 persons (M.D/D.M.D and also one high official) from each leasing company and 30 persons from 15 banks of which 2 persons (M.D/D.M.D and also one high official) from each bank have been selected for the key-informants interview. Also, 17 leasing companies for D.E.A have been selected randomly. For factor analysis, 15 banks and 15 leasing companies have been selected randomly and from these banks and leasing companies 405 firms have been selected by using cluster sampling due to the shortage of resources. Again, 50 firms (Which have used lease financing in their capital structures) have been selected by using cluster sampling. The selection procedures for factor analysis and key informant's interviews are as follows:

- a. First, selecting 15 leasing companies and 15 banks randomly from the available leasing companies and banks in Bangladesh.
- b. Second, selecting 2 high officials randomly from each leasing company and bank.
- c. Finally, selecting 20 demand sided firms randomly from each leasing companies and 7 demand sided firms from each bank.

The sample size needed for factor analysis is calculated using the following formula:

$$n = z^2 [P (1-P)/d^2] * D_{\text{eff}} \quad \text{where}$$

n = sample size

z = two-sided normal variate at 95% confidence level (1.96)

P = indicator percentage

d = precision

D_{eff} = design effect

To obtain data on indicators at 5% precision and 95% confidence interval, assuming a design effect of 1.05 and the most conservative estimate of indicator percentage (50%), the minimum sample size required is 400. Therefore, at least 400 demand sided firm is required for factor analysis. It is a statistically representative sample. The number of demand sided firms needed per leasing companies is 20 (300/15) and 7 per bank (105/15) and the total is 405

Respondents:

The M.D/D.M.D and one high official of 15 leasing companies and 15 banks are the respondents of the study. The high officials of 405 demand sided firms are also the respondents of the study.

Data Collection Procedures:

Data collection is carried out in the study area on both leasing companies, banks and demand sided firms. The data collection has been done with a primary objective targeted to meet the objectives of this study using structured questionnaires. Secondary data has been used from the annual reports of leasing companies and banks for H.H.I, W.A.C.C and for Data Envelopment Analysis. 50 firms (which have used lease financing) capital structures have been collected from the Balance Sheet of the firms. The questionnaires include sections on (i) Open ended questions for the M.Ds/D.M.Ds and high officials of leasing companies and banks to identify the reasons of competition between banks and leasing companies and the problems of leasing companies to compete with banks.

(ii) Open ended question to 50 firms which have taken lease financing in their capital structures to detect the reasons of using lease financing in their capital structure. (iii) Close

ended question to rank the reasons of preference of lease financing over bank loan by some of the borrowers in Bangladesh for factor analysis.

Analytical Techniques:

Data Envelopment Analysis (DEA) Method

Data Envelopment Analysis (DEA) is a nonparametric method in operation research and economics for the estimation of production frontiers. DEA is a linear programming methodology to calculate the efficiency of different firms from multiple inputs and outputs of firms. DEA has been used for both production and cost data.

Utilizing the selected variables, such as unit cost and output, DEA software searches for the points with lowest unit cost for a given output and can form the efficiency frontier. Any company which is not on the frontier is considered as inefficient. A numerical coefficient is given to each firm, defining its relative efficiency. 17 leasing companies' technical efficiencies, allocative efficiencies and cost efficiencies have been measured from the data of 2006 to 2011 in the study.

Factor Analysis Model

The major applications of factor analysis are to decrease the number of variables and to identify structure in the relationships between variables, that is, to classify variables. Therefore, factor analysis is useful as a data lessening or structure detection method.

Factor analysis is a multivariate statistical procedure that addresses itself to the study of interrelationships among a total set of experiential variables. The technique allows looking at group of variables that are likely to be correlated to one another and categorize essential

dimension that explain these correlations. In multiple regression models, one variable is explicitly as dependent variable and all the other variables as the predictors. In factor analysis, all the variables are considered as dependent variables simultaneously. Each of the observed variables is considered as a dependent variable that is a function of some hypothetical set of factors. Conversely, each factor can be considered as a dependent variable that is a function of observed variables.

CHAPTER-5

COMPETITION BETWEEN BANKS AND LEASING COMPANIES IN BANGLADESH

Reasons behind the competition between banks and leasing companies in Bangladesh

60 high official's interviews of different banks and leasing companies have been taken to identify the reasons of competition between banks and leasing companies. In case of term loan, leasing companies are facing competition from banks because both of these institutions are providing term loans. Banks are now providing lease financing and for that reason the competition exists between banks and leasing companies. Banks are providing short term loan like L/C, OD etc. Leasing companies are prohibited to provide short term loans. They cannot collect short term deposits also. There is no competition between banks and leasing companies for short term loan.

From the interviews of high officials of banks and NBFIs, it has been found that both the banks and the leasing companies have increased their marketing expenses. Marketing expense has increased the demand for the products of both banks and leasing companies. As a result, the competition of banks and leasing companies has been increased. The leasing companies can provide faster service for financial solution than banks. Though the interest rate/ charges of banks are lower as compared to leasing companies but faster services by leasing companies have increased the competition between banks and leasing companies. Banks and leasing companies are providing similar products and several banks are providing lease financing as well. Leasing companies are not providing operating lease at present in Bangladesh. Operating lease is not feasible for banks to provide in the context of Bangladesh.

The competition between banks and leasing companies are increasing as both of these institutions are providing similar products. Both banks and leasing companies are trying to provide better customer services. Technological advancement has also increased the competition between banks and leasing companies. Both banks and leasing companies have

minimized the transaction cost and they have diversified their products and services also. Both of the institutions have reduced the restriction on loan. For these reasons, the competition between banks and leasing companies have increased in Bangladesh. Both banks and leasing companies are providing quick approval of loan and lease. Customer relationship is focused by both banks and leasing companies. Flexibility of terms and conditions of loan and lease has increased the competition between banks and leasing companies. In case of lease, no down payment is required. For this reason, the demand of lease financing has increased and it has also created competition between banks and leasing companies. Both banks and leasing companies are trying to innovate new products and services and both of these institutions have reduced the complexity of transaction. Easy lease processing and tax benefit for lease have enhanced the demand for lease financing. These are the reasons that have increased the degree of competition between banks and leasing companies in Bangladesh.

Banks have competition among themselves and leasing companies have competition among themselves also. We can measure the competition of banking sector as well as leasing sector by using **Herfindhal-Hirschman Index (H.H.I)**. Herfindhal-Hirschman Index (H.H.I) is used to measure market competition. We can find the H.H.I by squaring the market share of each firm competing in the market, and then summing the resulting numbers. High concentration means less competition.

(Interest Revenue)

Name of the banks	2011	2011	2010	2010	2009	2009
Dutch Bangla	9984	0.002573	7175.0	0.002133	6163.0	0.002042
Dhaka Bank	9945	0.002553	7405.0	0.002272	7466.0	0.002997
Eastern Bank Ltd.	9713	0.002435	6977.0	0.002017	6216.0	0.002077
Bank Asia	10919.70	0.003077	8381.30	0.002910	6247.490	0.002099
Brac Bank	1428.30	0.000053	11028.0	0.005038	9506.0	0.004858
City Bank	9415.0	0.002288	70900	0.002082	5743.0	0.001773
AB Bank	12831.0	0.004249	98400	0.004011	9047.0	0.004401
Al-Arafah Islami Bank Ltd.	9481.0	0.002320	4307.0	0.000768	4005.0	0.000862
Pubali Bank	9003.510	0.002092	8056.640	0.002689	7501.210	0.003025
Shahjalal Islami Bank	10108.0	0.002637	6416.0	0.001705	5531.0	0.001645
Southeast Bank	11325.0	0.003310	10775.0	0.004810	8962.0	0.004318
One Bank	6517.90	0.001096	5056.290	0.001059	4229.350	0.000962
Premier Bank	7417.020	0.001420	4979.10	0.001027	4243.650	0.000968
Prime Bank	16709.0	0.007206	12147.0	0.006112	10856.0	0.006336
Mutual Trust Bank	5919.0	0.000904	4384.0	0.000796	42800	0.000985
National Bank	14435.0	0.005378	9616.140	0.003831	7006.630	0.002640
NCC Bank	9669.340	0.002413	6970.010	0.002012	6487.770	0.002263
Islami Bank	32019.530	0.026461	24766.270	0.025409	22888.0	0.028166
Total	196840.30		155369.750		136379.10	
H.H.1		0.072464		0.070681		0.072418

(Interest Revenue + Lease Revenue)

Name of the Leasing Company	2011	2011	2010	2010	2009	2009
Union Capital	494564000	0.00047	325287000	0.00047	304191000	0.00054
Uttara Finance	5935278380	0.06815	1532243630	0.01038	1413341000	0.01167
Prime Finace	983444000	0.00187	708152000	0.00222	434469000	0.00110
FAS Finance	357341000	0.00025	347124000	0.00053	173920000	0.00018
Premier Leasing	570883000	0.00063	623376000	0.00172	697084000	0.00284
International Leasing	1099092000	0.00234	917796000	0.00372	1039611000	0.00632
Bay Leasing	459502000	0.00041	430371000	0.00082	485088000	0.00138
BD Finance	449521000	0.00039	385304000	0.00066	274385000	0.00044
MIDAS Finance	689799000	0.00092	361783000	0.00058	295480000	0.00051
LankaBangla	2358586000	0.01076	1601101000	0.01133	1347784000	0.01062
IPDC	499573000	0.00048	442971000	0.00087	519113000	0.00157
IDLC	3379171000	0.02209	3047391000	0.04106	2433852000	0.03462
BIFC	998426000	0.00193	608978000	0.00164	516321000	0.00156
Phoenix	1085170000	0.00228	964418000	0.00411	919909000	0.00495
Peoples Leasing	1727658000	0.00577	1207656000	0.00645	783802000	0.00359
First Lease Finance	319058000	0.00020	262597000	0.00030	213217000	0.00027
GSP Finance	276566000	0.00015	242461000	0.00026	308600000	0.00056
United Leasing	1052773000	0.00214	1030608000	0.00470	920265000	0.00495
Total	22736405380		15039617630		13080432000	
H.H.I		0.12123		0.09181		0.08766

18 banks' interest revenues for three years and 18 leasing companies' interest revenues and lease revenues for three years have been taken to measure the market competition of banks and leasing companies. From the table, it has been observed that the value of H.H.I of different leasing companies is greater than the value of H.H.I of different banks. It means that banks have more competition among themselves than that leasing companies have competition among themselves.

Problems of leasing companies to compete with banks

The leasing companies are facing problems to compete with banks. One of the major problems of leasing companies to compete with banks is the low paid up capital. Because of low paid up capital they cannot expand their markets like banking institutions. Banks can collect short term deposits that the leasing companies cannot collect. For that reason the cost of capital of banks are lower than the cost of capital of leasing companies. High cost of capital is a problem for leasing companies to compete with banks. Higher service charges and complex rules and regulations are also the problems of leasing companies to compete with banks. Also leasing companies have less qualified personnel than banks. As a result of less qualified personnel, leasing companies sometimes cannot perform effectively and efficiently like banking institutions. It is difficult for leasing companies to recover the lease rentals as well as the lease assets from the lessee. This is the reason that makes problem for leasing companies to compete with banks. Sometimes the lessee makes delay in rental payment and this makes difficult for leasing companies to compete with banks. Lack of government assistance and lack of appropriate rules and regulations are the problems for leasing companies to compete with banks also.

The motivational activities of banks are less than the leasing companies. Banks in Bangladesh are providing the same services like lease financing that the leasing companies are providing. It increases the competition between banks and leasing companies in Bangladesh. As compared to banks, leasing companies are providing limited number of services. Efficient employee shortage is also another problem for leasing companies. There is a chance of the lease asset to become obsolete in future. If for the reason of technological advancement, the lease asset become obsolete then the asset needs to be changed by the lessee. It can create a problem for the leasing companies. Capital losses could be occurred in case of obsolescence. These are the problems of leasing companies to compete with banks in Bangladesh.

Challenges faced by leasing companies in Bangladesh

Leasing companies face some challenges in Bangladesh or there are some challenging issues for leasing companies in Bangladesh. High cost of fund is the most challenging issue for leasing companies in Bangladesh. As because leasing companies cannot collect demand deposits from the depositors, their cost of fund is higher than the banking institutions. Their paid up capital is lower than banks in Bangladesh. For lower paid up capital, they cannot expand their business like banks. Lease amount and also the leased asset recovery problem is another challenging issues for leasing companies. Lack of government assistance and lack of government rules and regulations are also challenging issues for leasing companies in Bangladesh. The transaction cost (documentation fee, processing fee etc.) of leasing companies is a bit higher than banks.

Banks are also providing same services as leasing companies and also they have limited investment sectors than banks. Leasing companies are not as popular as banks in Bangladesh. Lack of popularity is also a challenging issue for leasing companies. Delay in lease payment and lack of qualified employee make leasing companies facing challenges in Bangladesh. There is a risk of capital losses due to obsolescence of the equipments or machines. Leasing companies have to pay high interest for the commercial loan to banks. Due to manpower shortage, the leasing companies in Bangladesh are facing challenges.

Weighted Average Cost of Capital (WACC) for banks and leasing companies

15 banks and 15 leasing companies cost of capitals and deposits have been collected and used to find out the Weighted Average Cost of Capital for banks and leasing companies. It has been found that the costs of capital of selected banks are greater than the cost of capital of selected leasing companies. Banks can collect demand deposits from the depositors but the leasing companies as well as NBFIs are prohibited to collect demand deposits from the depositors. Because of high cost of capital, leasing companies cannot diversify their investments as like banks. The Net Present Values (NPV) of different sectors of leasing companies are lower than banking institution as their cost of capital is greater than banks.

W.A.C.C for Banks and Leasing Companies:

Name of the Banks	2011			2010			2009		
	C	D		C	D		C	D	
National Bank	7.29	128216	0.535937735	6.25	102472	0.4445872	6.45	76,834	0.424022
Prime Bank	8.36	159816	0.766074698	8.55	124574	0.7393758	8.41	106,956	0.769621
Mutual Trust BL	8.98	59,031	0.30394924	6.36	45,129	0.1992437	7.88	42,354	0.285559
One Bank	8.25	57,240	0.270768512	7.27	50,734	0.2560385	7.99	39,365	0.269112
Pubali Bank	8.05	98,850	0.456264982	8.09	88,466	0.4968172	8.66	73,016	0.541018
Dhaka Bank	11.34	98,850	0.554484682	9.25	70,420	0.4521781	10.94	60,918	0.570215
Brac Bank	7.25	103,726	0.43119153	6.52	88,158	0.3990075	8.49	75,220	0.546407
Bank Asia	11.97	95,131	0.65292124	9.23	86,366	0.5533708	10.19	54,832	0.478062
Dutch Bangla	9.89	100711	0.571107396	8.2	83,244.80	0.473852	6.53	67,788.50	0.378743
Eastern Bank	8.64	117581	0.582499392	6.85	82,098	0.3903866	7.5	69,871	0.448367
Merchantile Bank	8.05	102262	0.472013856	7.85	75,629	0.4121257	8.02	58,033	0.398222
Exim Bank	9.15	107881.21	0.565993557	7.1	94,949.40	0.4679746	9.09	73,835	0.574251
AB Bank	11.19	116152	0.745248934	9.89	95,702	0.6570358	10.31	83,087	0.732938
Jamuna Bank	8.76	70,308	0.353145303	6.09	60,673	0.2564983	6.8	42,356	0.246433
Islami Bank	8.86	341,853.67	1.736675002	8.65	291934.6	1.7529656	8.76	244292.14	1.831003
TOTAL		1744035.88			1440549.8			1168757.64	
W.A.C.C			8.998276061			7.9514573			8.49397

Leasing Companies	2011			2010			2009		
	C	D		C	D		C	D	
Bay Leasing	14.88	1146101000.00	0.25	11.50	1172302000.00	0.22	10.02	1665198000.00	0.32
First Lease Int.	12.60	955017000.00	0.17	10.03	414279000.00	0.07	13.00	388216000.00	0.10
International Leasing	13.79	8425124000.00	1.68	10.72	8408600000.00	1.48	12.13	7174917000.00	1.67
IDLC	11.15	17639000000.00	2.85	10.07	13001000000.00	2.16	10.44	10360000000.00	2.08
IPDC	11.26	3798236467.00	0.62	9.91	3180862931.00	0.52	11.58	2329403480.00	0.52
LankaBangla	13.98	5569770000.00	1.13	11.28	4814940000.00	0.89	11.98	4456900000.00	1.03
Fas Finance	17.18	312880000.00	0.08	13.62	516820000.00	0.12	13.50	222290000.00	0.06
Prime Finance	13.39	4315610000.00	0.84	11.15	3760310000.00	0.69	11.25	4632590000.00	1.00
United Leasing	12.88	5098308000.00	0.95	10.92	4511631000.00	0.81	11.97	3888300000.00	0.89
Peoples Leasing	14.86	5848372000.00	1.26	9.75	4910679000.00	0.79	9.95	2956474000.00	0.57
GSP- Finance	13.48	354594000.00	0.07	11.11	385166000.00	0.07	12.30	370370000.00	0.09
BD Finance	12.09	178740000.00	0.03	12.05	1261450000.00	0.25	12.35	1049194000.00	0.25
Union Capital	15.20	4085630000.00	0.90	11.19	3433520000.00	0.63	11.96	2901380000.00	0.67
Uttara Finance	11.99	4307162000.00	0.75	10.14	3886917000.00	0.65	12.53	3470755000.00	0.84
Phoenix	10.01	6974837805.00	1.01	11.95	7083646899.00	1.39	12.01	6193743447.00	1.43
TOTAL		69009382272.00			60742123830.00			52059730927.00	
W.A.C.C			12.59			10.74			11.50

Leasing Companies/NBFIs cannot collect Demand Deposits. But banks can collect Demand Deposits. The cost for Demand Deposits is low as compare to Term Deposits. As a result, the cost of capital of banks is low as compared to Leasing Companies or NBFIs.

Utilization of the low cost of fund by banks

The banks can utilize the low cost of fund by investing more in profitable sectors. More and more profitable sectors should be identified and invested by the banks as their cost of fund is low compared to leasing companies. Banks should try to reduce or eliminate different types of risks. Banks should try to motivate their employees. New innovative services or products should be introduced by the banks to expand its markets. Service charges of banks can be reduced. Products and services of banks should be diversified in different sectors. The transaction cost of banks could be minimized to utilize the low cost of fund and to increase profit. Customer relationship should be improved by the banks. It has been found by the high official's interviews of different banks and leasing companies that banks can involve in stock purchase and repurchase to utilize their low cost of funds. It has also been found from the interviews that banks could acquire new organizations or it might merge with new firms to utilize the low cost of fund. Advertisement or marketing expenses should be increased to utilize the low cost of fund by the banking institutions. These are the ways that the banks can utilize its low cost of funds.

Leasing business of banks as compared to leasing business of leasing companies

Banks can diversify the leasing products. Banks can also reduce the service charge than leasing companies to compete with the leasing business of leasing companies. Banks can also provide better customer service than leasing companies. It has been found from the expert's interviews that banks should provide lease in different areas and therefore can compete with the leasing business of leasing companies. The lease procedures and processing should be fast by the banking institutions.

Bank (lessor) should conduct a thorough price verification as a part of standard due diligence to avoid any kind of over invoicing. Bank should also verify the residual value of the lease asset that should reflect the actual residual value to avoid intentional payment default by the lessee.

Competition faced by Leasing Companies with banks

Though the costs of funds of leasing companies are higher than banks but they are trying to compete with banks. Leasing companies are trying to increase their products and services. They are trying to provide better customer services. The complexity of getting lease is less than the complexity of collecting money by bank loan. It is also simple to get lease financing than bank loan. Leasing companies are trying to satisfy their customers also. The leasing companies are diversifying their products. Leasing companies are recruiting efficient and expert marketing personnel. They are providing the same services as banks with better customer service. Leasing companies are efficiently managing their investment portfolio. They are trying to minimizing their service charges. Technological development has been achieved by the leasing companies.

Ways of dealing leasing business of leasing companies as compared to banks

Leasing companies have fewer formalities than banks and they encourage new entrepreneurs. Leasing companies can provide variety of options for leasing that banks cannot match like seasonal payment, venture lease etc. Leasing companies are trying to provide better customer service. In case of lease financing provided by the banks, banks look for risk free deal with tight obligation. Leasing companies are focusing to minimize transaction cost. Fewer formalities and few documents are required in case of lease financing provided by leasing companies. Also, leasing companies are flexible than banks. Leasing companies provide simple application, easy approval process and flexible rental payment than bank. Leasing companies try to gather new

ideas that require continuous product innovation and market knowledge. Leasing companies work closely with equipment companies. They have better ideas about equipments whether these are profitable or not. Leasing companies try to reduce operational complexity throughout the life cycle of lease contract. Leasing companies are less formal and more flexible than banks.

The ways how leasing companies are trying to reduce the cost

It has been found from the interviews of the experts of banks and leasing companies that leasing companies can reduce the cost by establishing effective monitoring repayment schedule. Leasing companies have diversified their services or product. The leasing companies are trying to lowering the cost of capital. They are trying to avoid risky projects and to reduce the cost of collecting funds. Intensive training programs are going on in leasing companies. Leasing companies have focused more in customer relationship and they have also improved the service quality. They are trying to develop the manpower and are also trying to reduce the expenses.

Reasons behind the borrower's preference of leasing from leasing companies than leasing from banks

Flexible terms and conditions of leasing companies make borrowers to prefer leasing from leasing companies than leasing from banks. Leasing companies have more leasing options than banks. It is easy to get lease for new customers from leasing companies than banks. The cost of leasing from leasing companies is lower than banks. Leasing companies are providing better customer service. Leasing companies are popular than banks in case of lease financing. The complexities of lease financing from leasing companies are less than the complexities of banks. It is easy to get quick approval from leasing companies. Less documentation is required by leasing companies than banks. Leasing companies provide flexibility in the payment of installment than banks.

Steps to be taken to improve the leasing business of Bangladesh

The costs of funds for the leasing companies are high. The leasing companies should try to accumulate funds with low cost. It will improve the leasing business of Bangladesh. The paid up capital for leasing companies are low as compared to banks. The leasing companies should try to accumulate capital from the capital markets. The government should improve proper guidelines and instructions for leasing companies to improve the leasing business in Bangladesh. Improvement of services provided by leasing companies and banks is needed for the development of leasing business in Bangladesh. Expert personnel are required. The leasing companies should try to reduce the difficulties for fund raising through borrowing. Leasing companies and banks should increase product diversification and increase investment in leasing business. The leasing companies should raise low cost capital. It has been found from the expert's interviews that more advertisements are needed in leasing business. The leasing companies and banks should minimize the transaction cost of leasing business. Better customer service is needed by the banks and leasing companies. The assistance of government is needed to improve the leasing business of Bangladesh.

Steps to be taken to improve the leasing business of banks in Bangladesh

Banks should minimize the transaction cost. It has been found from the interviews of the high officials of banks and leasing companies that banks should provide better customer service to their clients. The application and procedures of lease financing of banks should be simple and easy. Banks need to try to increase the popularity of their leasing business through advertising. Banks need to diversify their products and services and should provide more flexibility in leasing business.

Steps to be taken to improve the leasing business of leasing companies in Bangladesh

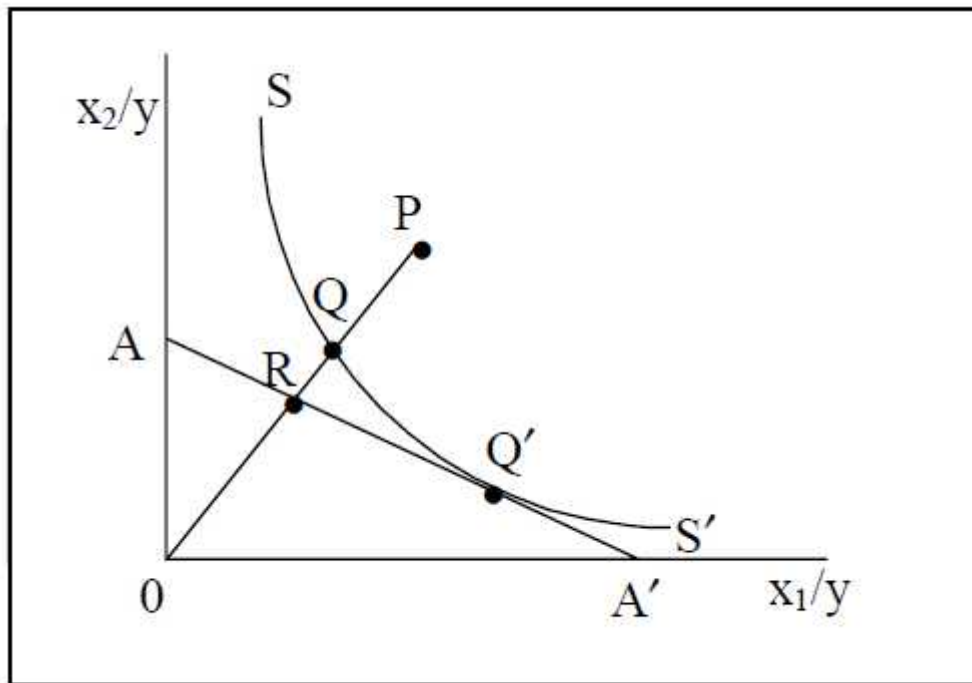
The leasing companies should provide simple and easy procedure of lease for customers. More flexible terms and conditions are required from leasing companies. Leasing companies should reduce service charges. Proper rules and regulations are needed for leasing companies. Advertisement expenses should be increased by the leasing companies. Transaction cost needs to be reduced. They should try to reduce the risk of obsolescence of machines and equipments. They should provide more flexibility to the customers. Leasing companies should provide wide range of services. Government assistance is required to develop the leasing business of leasing companies. Leasing companies should provide better customer services and recruit qualified personnel.

CHAPTER-6

EFFICIENCY ANALYSIS OF LEASING COMPANIES IN BANGLADESH THROUGH D.E.A

Data Envelopment Analysis (DEA):

Data Envelopment Analysis is a non-parametric approach of measuring efficiency of comparative Decision Making Units (DMUs). This approach is used for empirical estimation productive efficiency of DMUs without assuming any particular functional form for the frontier. The traditional approach of measuring efficiency is using financial ratios such as ROE, ROA etc. The traditional approach is criticized as it can't consider more than one input or output in the measurement. The modern efficiency measurement has removed this limitation and it can take into account multiple inputs and outputs. By using DEA, we can measure technical efficiency, allocative efficiency and as well as cost efficiency. The technical efficiency, allocative efficiency and cost efficiency can be explained graphically.



The above graph explains the decomposition of efficiency considering two inputs x_1 and x_2 and one output y . P is a DMU. This graph represents input oriented efficiency measurement.

Technical Efficiency (TE): Technical efficiency represents how efficiently a firm can utilize its acquired inputs to produce maximum outputs. In the above example, SS' represents the efficient frontier. Firm P is technically inefficient as it belongs above SS' . P is compared with Q and PQ/OP is the technical inefficiency for firm P. So OQ/OP is the technical efficiency (TE) for firm P and it must be within 0 to 1.

Allocative Efficiency (AE): Allocative efficiency represents how much a firm can allocate its resources to acquire inputs for efficient production. An allocatively efficient firm acquires the level of inputs that require minimum resources for a target level of output. In the above graph, the firm P has allocative inefficiency as the benchmark firm for P, Q has a different price ratio than the efficient price ratio AA' . Comparing price ratio the allocatively efficient point for P is R. So RQ is the allocative inefficiency for firm P and OR/OQ is the allocative efficiency for firm P. The firms on the line AA' is economically efficient.

Economic/Cost Efficiency (EE): Cost efficiency is the total efficiency of a firm including technical efficiency and allocative efficiency. Mathematically $EE = TE \times AE$. In the above graph, the firm at P has the economic efficiency of OR/OP .

Input Oriented vs. Output Oriented Efficiency: There are two main approaches for efficiency calculation, input orientated approach and output oriented approach. Input oriented approach indicates the degree to which a firm can reduce its existing level of inputs without reducing outputs. On the other hand output oriented efficiency indicates the degree to which a firm can increase its existing output without increasing its inputs. The appropriate choice of approach depends on the managerial control of the firms on inputs and outputs. In the industrial sector,

managers have more control on inputs than outputs. In this research, input oriented efficiency measurement for empirical study has been used.

Constant Return to Scale (C.R.S) vs. Variable Return to Scale (V.R.S): In calculating efficiency in DEA, there is a crucial assumption regarding the scale return. Constant return to scale means that a firm will be able to generate more output in the constant ratio when additional inputs are used. Variable return to scale assumes that the additional inputs will increase the outputs in different ratio based on their position. The additional return can be in increasing rate or in decreasing rate. The variable rate of return provides the score of pure technical efficiency and scale efficiency. When both are multiplied, we get the technical efficiency under constant return to scale.

Data and Data Sources:

Efficiency scores of the 17 leasing companies in Bangladesh have been calculated. Three inputs and two outputs have been used for DEA efficiency measurement. The inputs are Deposits and Borrowings (x_1), Employees (x_2) and Fixed Assets (x_3). The outputs are Interest Revenue (y_1) and Non-interest revenue (y_2). The allocative efficiency measurements as well as cost efficiency measurements require price data for inputs. The prices of inputs are Interest expense/Deposits and Borrowings (Price of Deposits, p_1), Salary and Allowance/Number of Employees (Price of Employees, p_2) and Depreciation/Fixed Assets (Price of Fixed Assets, p_3). All the input and output data have been collected from published annual reports from 2006 to 2011.

Cost efficiency and its decomposition according to V.R.S:

Data Envelopment Analysis (DEA) measures the efficiency of firms or decision making units based on the inputs and output mix of a firm comparative to a benchmark one that is situated on the optimum production frontier. A firm belonging on the efficient frontier is called technically efficient. There are two assumptions for technical efficiency – one is variable return to scale and the other is constant return to scale. A technically efficient firm may not be allocatively efficient. Allocative efficiency is determined by the input price ratios. So cost efficiency is the product of technical efficiency and allocative efficiency. In the following table, the technical efficiency, allocative efficiency and cost efficiency have been reported for the leasing companies from 2006 to 2011 assuming variable return to scale

Company	Year	Technical Efficiency	Allocative Efficiency	Cost Efficiency
IDLC Finance Ltd.	2006	0.285	0.755	0.215
IDLC Finance Ltd.	2007	0.421	0.83	0.349
IDLC Finance Ltd.	2008	0.502	0.908	0.456
IDLC Finance Ltd.	2009	0.85	0.923	0.784
IDLC Finance Ltd.	2010	1	0.952	0.952
IDLC Finance Ltd.	2011	1	1	1
Bay Leasing and Inv. Ltd.	2006	0.728	0.465	0.339
Bay Leasing and Inv. Ltd.	2007	0.503	0.415	0.209
Bay Leasing and Inv. Ltd.	2008	0.401	0.579	0.232
Bay Leasing and Inv. Ltd.	2009	0.381	0.583	0.222
Bay Leasing and Inv. Ltd.	2010	0.48	0.931	0.447
Bay Leasing and Inv. Ltd.	2011	0.347	0.8	0.278
BFIC	2006	0.914	0.492	0.45
BFIC	2007	1	0.557	0.557
BFIC	2008	0.755	0.497	0.375
BFIC	2009	0.507	0.674	0.342
BFIC	2010	0.482	0.803	0.387
BFIC	2011	0.349	0.658	0.229
BIFC	2006	1	0.646	0.646
BIFC	2007	0.924	0.644	0.595

Company	Year	Technical Efficiency	Allocative Efficiency	Cost Efficiency
BIFC	2008	0.553	0.648	0.358
BIFC	2009	0.474	0.597	0.283
BIFC	2010	0.465	0.625	0.291
BIFC	2011	0.483	0.542	0.262
Fidelity (FAS Finance)	2006	1	1	1
Fidelity (FAS Finance)	2007	0.961	0.864	0.831
Fidelity (FAS Finance)	2008	0.712	0.83	0.591
Fidelity (FAS Finance)	2009	0.757	0.97	0.734
Fidelity (FAS Finance)	2010	0.635	0.892	0.567
Fidelity (FAS Finance)	2011	0.672	0.969	0.651
International.Leasing	2006	1	0.385	0.385
International.Leasing	2007	1	0.412	0.412
International.Leasing	2008	1	0.395	0.395
International.Leasing	2009	1	0.273	0.273
International.Leasing	2010	1	0.44	0.44
International.Leasing	2011	1	0.572	0.572
IPDC	2006	1	0.952	0.952
IPDC	2007	0.817	0.733	0.599
IPDC	2008	0.511	0.661	0.338
IPDC	2009	0.508	0.714	0.363
IPDC	2010	0.418	0.811	0.339
IPDC	2011	0.39	0.764	0.298
Islamic Finance	2006	1	0.942	0.942
Islamic Finance	2007	0.88	0.81	0.713
Islamic Finance	2008	0.556	0.643	0.357
Islamic Finance	2009	0.602	0.612	0.369
Islamic Finance	2010	0.544	0.611	0.332
Islamic Finance	2011	0.341	0.841	0.287
LankaBangla Finance	2006	0.497	0.731	0.363
LankaBangla Finance	2007	0.388	0.535	0.207
LankaBangla Finance	2008	0.388	0.508	0.197
LankaBangla Finance	2009	0.394	0.547	0.216
LankaBangla Finance	2010	0.324	0.641	0.208
LankaBangla Finance	2011	1	0.473	0.473
Midas Financing Ltd.	2006	0.604	0.762	0.461
Midas Financing Ltd.	2007	0.445	0.984	0.438
Midas Financing Ltd.	2008	0.413	0.923	0.381
Midas Financing Ltd.	2009	0.328	0.76	0.249
Midas Financing Ltd.	2010	0.338	0.823	0.278
Midas Financing Ltd.	2011	0.259	0.748	0.194

Company	Year	Technical Efficiency	Allocative Efficiency	Cost Efficiency
Peoples Leasing (PLFS)	2006	0.711	0.465	0.331
Peoples Leasing (PLFS)	2007	0.743	0.562	0.417
Peoples Leasing (PLFS)	2008	0.517	0.701	0.362
Peoples Leasing (PLFS)	2009	0.436	0.666	0.29
Peoples Leasing (PLFS)	2010	0.873	0.432	0.377
Peoples Leasing (PLFS)	2011	1	0.657	0.657
Phoenix Finance & Inv. Ltd.	2006	0.421	0.645	0.271
Phoenix Finance & Inv. Ltd.	2007	0.365	0.672	0.245
Phoenix Finance & Inv. Ltd.	2008	0.351	0.693	0.244
Phoenix Finance & Inv. Ltd.	2009	0.387	0.696	0.269
Phoenix Finance & Inv. Ltd.	2010	0.434	0.889	0.386
Phoenix Finance & Inv. Ltd.	2011	1	1	1
Premier Leasing & Fin.	2006	1	0.528	0.528
Premier Leasing & Fin.	2007	0.774	0.518	0.401
Premier Leasing & Fin.	2008	1	0.622	0.622
Premier Leasing & Fin.	2009	0.954	0.712	0.679
Premier Leasing & Fin.	2010	1	1	1
Premier Leasing & Fin.	2011	0.48	0.698	0.335
Prime Finance	2006	0.745	0.633	0.472
Prime Finance	2007	1	0.523	0.523
Prime Finance	2008	1	0.53	0.53
Prime Finance	2009	0.448	0.716	0.321
Prime Finance	2010	1	1	1
Prime Finance	2011	0.474	0.737	0.35
Union Capital Ltd.	2006	0.922	0.532	0.49
Union Capital Ltd.	2007	0.703	0.506	0.356
Union Capital Ltd.	2008	0.638	0.535	0.341
Union Capital Ltd.	2009	0.62	0.506	0.314
Union Capital Ltd.	2010	1	0.486	0.486
Union Capital Ltd.	2011	0.519	0.57	0.295
United Leasing Com. Ltd.	2006	0.536	0.507	0.271
United Leasing Com. Ltd	2007	0.502	0.498	0.25
United Leasing Com. Ltd	2008	0.563	0.497	0.28
United Leasing Com. Ltd	2009	0.559	0.531	0.296
United Leasing Com. Ltd	2010	0.551	0.541	0.298
United Leasing Com. Ltd	2011	0.387	0.674	0.261
Uttara Finance & Inv. Ltd.	2006	0.434	0.577	0.25
Uttara Finance & Inv. Ltd	2007	0.987	0.976	0.964
Uttara Finance & Inv. Ltd	2008	1	1	1
Uttara Finance & Inv. Ltd	2009	0.593	0.607	0.36

Company	Year	Technical Efficiency	Allocative Efficiency	Cost Efficiency
Uttara Finance & Inv. Ltd	2010	0.525	0.675	0.355
Uttara Finance & Inv. Ltd	2011	1	0.961	0.961

Optimum level of inputs for efficient production according to V.R.S

We have calculated efficiencies of the leasing companies based on the input orientation. It indicates that an inefficient firm has the scope for cost minimization through reducing its present level of inputs while attaining the same level of output. The following table reports the quantity of each of the three inputs that should have been used by the firms in the specific year to be fully efficient.

Company	Year	Deposit & Borrowing (Million Taka)	No. of Employee	Fixed Assets (Million Taka)
IDLC Finance Ltd.	2006	1530.646	72.723	44.421
IDLC Finance Ltd.	2007	3547.524	108.385	71.541
IDLC Finance Ltd.	2008	5286.799	137.774	90.178
IDLC Finance Ltd.	2009	12553.38	256.297	177.381
IDLC Finance Ltd.	2010	17113.85	327.711	238.617
IDLC Finance Ltd.	2011	22204.67	429	259.71
Bay Leasing and Inv. Ltd.	2006	674.557	47.556	20.83
Bay Leasing and Inv. Ltd.	2007	514.759	43.115	16.172
Bay Leasing and Inv. Ltd.	2008	718.49	46.804	24.07
Bay Leasing and Inv. Ltd.	2009	854.336	49.189	29.412
Bay Leasing and Inv. Ltd.	2010	1579.598	45.701	74.04
Bay Leasing and Inv. Ltd.	2011	820.434	48.297	28.373
BFIC	2006	471.813	37.37	19.441
BFIC	2007	679.21	37.731	30.853
BFIC	2008	615.642	39.398	25.589
BFIC	2009	614.926	43.364	21.609
BFIC	2010	1060.185	45.756	44.504
BFIC	2011	761.202	48.782	24.529
BIFC	2006	558.067	43.303	18.443
BIFC	2007	623.856	43.36	22.12
BIFC	2008	637.075	43.334	22.896
BIFC	2009	947.824	51.346	32.575
BIFC	2010	1287.704	54.635	48.599
BIFC	2011	1366.489	69.071	38.731

Company	Year	Deposit & Borrowing (Million Taka)	No. of Employee	Fixed Assets (Million Taka)
Fidelity (FAS Finance)	2006	215.67	34	8.25
Fidelity (FAS Finance)	2007	313.162	35.228	10.698
Fidelity (FAS Finance)	2008	357.919	37.524	12.824
Fidelity (FAS Finance)	2009	444.987	38.61	16.686
Fidelity (FAS Finance)	2010	602.713	38.019	26.225
Fidelity (FAS Finance)	2011	628.579	44.226	21.528
International.Leasing	2006	1095.892	60.149	32.235
International.Leasing	2007	1326.82	64.122	41.396
International.Leasing	2008	1664.51	75.326	49.432
International.Leasing	2009	2478.117	87.727	65.754
International.Leasing	2010	4943.737	116.568	120.267
International.Leasing	2011	5976.017	149.933	96.438
IPDC	2006	1232.734	59.575	40.572
IPDC	2007	965.541	56.852	28.111
IPDC	2008	946.873	54.5	29.389
IPDC	2009	909.532	51.335	30.413
IPDC	2010	914.631	48.326	33.691
IPDC	2011	960.063	51.578	33.039
Islamic Finance	2006	558.838	40.992	20.782
Islamic Finance	2007	616.582	42.422	22.639
Islamic Finance	2008	711.564	44.225	26.239
Islamic Finance	2009	870.069	46.452	33.023
Islamic Finance	2010	879.83	47.614	32.423
Islamic Finance	2011	867.821	50.782	28.595
LankaBangla Finance	2006	565.966	36.158	19.851
LankaBangla Finance	2007	833.255	46.076	31.308
LankaBangla Finance	2008	1096.07	51.843	40.496
LankaBangla Finance	2009	1608.293	58.993	62.465
LankaBangla Finance	2010	1532.259	58.647	54.031
LankaBangla Finance	2011	5034.546	121.442	113.924
Midas Financing Ltd.	2006	311.025	36.817	10.864
Midas Financing Ltd.	2007	375.232	38.209	13.126
Midas Financing Ltd.	2008	554.993	40.608	20.945
Midas Financing Ltd.	2009	388.117	36.864	15.193
Midas Financing Ltd.	2010	760.037	44.953	28.267
Midas Financing Ltd.	2011	842.212	45.484	32.404
Peoples Leasing (PLFS)	2006	565.981	42.842	19.349
Peoples Leasing (PLFS)	2007	723.946	48.213	21.614
Peoples Leasing (PLFS)	2008	979.429	49.175	29.241

Company	Year	Deposit & Borrowing (Million Taka)	No. of Employee	Fixed Assets (Million Taka)
Peoples Leasing (PLFS)	2009	1346.284	57.056	44.438
Peoples Leasing (PLFS)	2010	2625.836	73.858	103.196
Peoples Leasing (PLFS)	2011	5284.588	137.06	91.636
Phoenix Finance & Inv.	2006	990.982	57.628	28.785
Phoenix Finance & Inv.	2007	1162.713	60.759	35.421
Phoenix Finance & Inv.	2008	1385.235	66.664	42.186
Phoenix Finance & Inv.	2009	1675.999	70.986	54.395
Phoenix Finance & Inv.	2010	2190.827	70.985	83.617
Phoenix Finance & Inv.	2011	1826.01	330	849.9
Premier Leasing & Fin.	2006	479.388	35.433	15.396
Premier Leasing & Fin.	2007	593.064	42.631	21.097
Premier Leasing & Fin.	2008	1409.828	62.556	43.818
Premier Leasing & Fin.	2009	2310.09	65.401	95.932
Premier Leasing & Fin.	2010	3818.32	63	183.92
Premier Leasing & Fin.	2011	2352.712	66.603	107.607
Prime Finance	2006	699.389	42.342	20.57
Prime Finance	2007	1067.375	42.671	39.484
Prime Finance	2008	1481.562	26.46	63.862
Prime Finance	2009	1956.721	48.749	96.953
Prime Finance	2010	7405.77	67	323.62
Prime Finance	2011	2352.712	66.603	107.607
Union Capital Ltd.	2006	396.094	38.478	14.042
Union Capital Ltd.	2007	575.838	40.749	21.988
Union Capital Ltd.	2008	769.126	44.254	29.477
Union Capital Ltd.	2009	1162.534	50.753	45.351
Union Capital Ltd.	2010	2157.947	55.57	97.062
Union Capital Ltd.	2011	1503.193	66.032	49.509
United Leasing Com. Ltd	2006	979.843	57.288	28.49
United Leasing Com. Ltd	2007	1190.19	63.662	34.097
United Leasing Com. Ltd	2008	1456.77	71.823	41.122
United Leasing Com. Ltd	2009	1439.79	71.305	40.672
United Leasing Com. Ltd	2010	1478.98	72.499	41.71
United Leasing Com. Ltd	2011	1546.243	73.348	44.685
Uttara Finance & Inv. Ltd	2006	1147.339	60.004	35.299
Uttara Finance & Inv. Ltd	2007	1620.193	76.444	45.807
Uttara Finance & Inv. Ltd	2008	1692.29	79	47.36
Uttara Finance & Inv. Ltd	2009	2572.172	92.278	60.272
Uttara Finance & Inv. Ltd	2010	3043.688	95.418	75.901
Uttara Finance & Inv. Ltd	2011	8442.338	188.435	129.817

Cost efficiency and its decomposition according to C.R.S

Again we have calculated input oriented technical efficiencies, allocative efficiencies and cost efficiencies of the leasing companies assuming constant return to scale.

Company	Year	Technical Efficiency	Allocative Efficiency	Cost Efficiency
IDLC Finance Ltd.	2006	0.281	0.746	0.21
IDLC Finance Ltd.	2007	0.311	0.723	0.225
IDLC Finance Ltd.	2008	0.319	0.735	0.235
IDLC Finance Ltd.	2009	0.412	0.693	0.286
IDLC Finance Ltd.	2010	0.461	0.704	0.325
IDLC Finance Ltd.	2011	0.406	0.715	0.29
Bay Leasing and Inv. Ltd.	2006	0.613	0.451	0.276
Bay Leasing and Inv. Ltd.	2007	0.346	0.434	0.15
Bay Leasing and Inv. Ltd.	2008	0.341	0.561	0.191
Bay Leasing and Inv. Ltd.	2009	0.336	0.568	0.191
Bay Leasing and Inv. Ltd.	2010	0.418	0.99	0.414
Bay Leasing and Inv. Ltd.	2011	0.28	0.844	0.237
BFIC	2006	0.572	0.495	0.283
BFIC	2007	0.932	0.409	0.381
BFIC	2008	0.576	0.475	0.274
BFIC	2009	0.344	0.747	0.257
BFIC	2010	0.409	0.805	0.329
BFIC	2011	0.303	0.625	0.19
BIFC	2006	0.789	0.593	0.468
BIFC	2007	0.665	0.669	0.445
BIFC	2008	0.355	0.745	0.264
BIFC	2009	0.388	0.616	0.239
BIFC	2010	0.438	0.596	0.261
BIFC	2011	0.469	0.537	0.252
Fidelity (FAS Finance)	2006	0.289	0.874	0.253
Fidelity (FAS Finance)	2007	0.435	0.793	0.345
Fidelity (FAS Finance)	2008	0.347	0.928	0.322
Fidelity (FAS Finance)	2009	0.52	0.92	0.478
Fidelity (FAS Finance)	2010	0.437	0.943	0.412
Fidelity (FAS Finance)	2011	0.541	0.957	0.518
International.Leasing	2006	1	0.355	0.355
International.Leasing	2007	1	0.392	0.392
International.Leasing	2008	1	0.391	0.391
International.Leasing	2009	0.509	0.448	0.228
International.Leasing	2010	0.775	0.353	0.273
International.Leasing	2011	0.639	0.434	0.277

Company	Year	Technical Efficiency	Allocative Efficiency	Cost Efficiency
IPDC	2006	0.935	0.957	0.895
IPDC	2007	0.755	0.707	0.533
IPDC	2008	0.469	0.62	0.291
IPDC	2009	0.436	0.692	0.302
IPDC	2010	0.321	0.846	0.272
IPDC	2011	0.314	0.795	0.25
Islamic Finance	2006	0.797	0.867	0.691
Islamic Finance	2007	0.716	0.766	0.549
Islamic Finance	2008	0.458	0.613	0.281
Islamic Finance	2009	0.532	0.568	0.302
Islamic Finance	2010	0.48	0.566	0.272
Islamic Finance	2011	0.278	0.856	0.238
LankaBangla Finance	2006	0.357	0.672	0.24
LankaBangla Finance	2007	0.337	0.506	0.171
LankaBangla Finance	2008	0.362	0.487	0.176
LankaBangla Finance	2009	0.391	0.521	0.204
LankaBangla Finance	2010	0.322	0.605	0.195
LankaBangla Finance	2011	0.662	0.437	0.289
Midas Financing Ltd.	2006	0.282	0.748	0.211
Midas Financing Ltd.	2007	0.273	0.875	0.239
Midas Financing Ltd.	2008	0.28	0.944	0.264
Midas Financing Ltd.	2009	0.129	0.957	0.123
Midas Financing Ltd.	2010	0.245	0.887	0.217
Midas Financing Ltd.	2011	0.197	0.76	0.149
Peoples Leasing (PLFS)	2006	0.458	0.506	0.232
Peoples Leasing (PLFS)	2007	0.557	0.556	0.31
Peoples Leasing (PLFS)	2008	0.463	0.635	0.294
Peoples Leasing (PLFS)	2009	0.405	0.652	0.264
Peoples Leasing (PLFS)	2010	0.742	0.498	0.37
Peoples Leasing (PLFS)	2011	0.601	0.571	0.343
Phoenix Finance & Inv.	2006	0.391	0.625	0.244
Phoenix Finance & Inv.	2007	0.347	0.656	0.228
Phoenix Finance & Inv.	2008	0.342	0.684	0.234
Phoenix Finance & Inv.	2009	0.382	0.691	0.264
Phoenix Finance & Inv.	2010	0.431	0.888	0.383
Phoenix Finance & Inv.	2011	1	0.877	0.877
Premier Leasing & Fin.	2006	0.597	0.522	0.311
Premier Leasing & Fin.	2007	0.53	0.534	0.283
Premier Leasing & Fin.	2008	1	0.591	0.591
Premier Leasing & Fin.	2009	0.943	0.707	0.667
Premier Leasing & Fin.	2010	1	1	1
Premier Leasing & Fin.	2011	0.478	0.692	0.331
Prime Finance	2006	0.509	0.647	0.329

Company	Year	Technical Efficiency	Allocative Efficiency	Cost Efficiency
Prime Finance	2007	1	0.419	0.419
Prime Finance	2008	1	0.427	0.427
Prime Finance	2009	0.414	0.706	0.292
Prime Finance	2010	0.937	0.637	0.597
Prime Finance	2011	0.472	0.732	0.346
Union Capital Ltd.	2006	0.495	0.564	0.279
Union Capital Ltd.	2007	0.493	0.494	0.243
Union Capital Ltd.	2008	0.529	0.505	0.267
Union Capital Ltd.	2009	0.57	0.488	0.278
Union Capital Ltd.	2010	1	0.467	0.467
Union Capital Ltd.	2011	0.513	0.554	0.284
United Leasing Com. Ltd	2006	0.503	0.479	0.241
United Leasing Com. Ltd	2007	0.496	0.469	0.233
United Leasing Com. Ltd	2008	0.515	0.53	0.273
United Leasing Com. Ltd	2009	0.519	0.554	0.288
United Leasing Com. Ltd	2010	0.511	0.568	0.29
United Leasing Com. Ltd	2011	0.378	0.676	0.256
Uttara Finance & Inv. Ltd	2006	0.398	0.58	0.231
Uttara Finance & Inv. Ltd	2007	0.981	0.977	0.958
Uttara Finance & Inv. Ltd	2008	1	1	1
Uttara Finance & Inv. Ltd	2009	0.487	0.564	0.275
Uttara Finance & Inv. Ltd	2010	0.423	0.614	0.26
Uttara Finance & Inv. Ltd	2011	0.565	0.66	0.373

Optimum level of inputs for efficient production according to C.R.S

The optimum level of inputs to attain highest efficiency under constant return to scale is given in the following table.

Company	Year	Deposit & Borrowing (Million Taka)	No. of Employee	Fixed Assets (Million Taka)
IDLC Finance Ltd.	2006	1510.188	68.548	43.568
IDLC Finance Ltd.	2007	2106.944	91.174	63.767
IDLC Finance Ltd.	2008	2434.511	103.697	74.786
IDLC Finance Ltd.	2009	3944.726	153.446	130.926
IDLC Finance Ltd.	2010	4991.229	182.878	173.199
IDLC Finance Ltd.	2011	5442.603	228.738	169.256
Bay Leasing and Inv. Ltd.	2006	567.805	25.773	16.381
Bay Leasing and Inv. Ltd.	2007	389.52	18.184	10.901

Company	Year	Deposit & Borrowing (Million Taka)	No. of Employee	Fixed Assets (Million Taka)
Bay Leasing and Inv. Ltd.	2008	610.587	24.786	19.574
Bay Leasing and Inv. Ltd.	2009	755.734	29.069	25.303
Bay Leasing and Inv. Ltd.	2010	1486.375	26.678	70.155
Bay Leasing and Inv. Ltd.	2011	718.702	27.538	24.134
BFIC	2006	333.085	9.061	13.66
BFIC	2007	499.865	8.247	24.077
BFIC	2008	485.407	12.823	20.162
BFIC	2009	495.504	18.995	16.633
BFIC	2010	956.442	24.587	40.181
BFIC	2011	659.578	28.045	20.295
BIFC	2006	437.31	18.662	13.41
BIFC	2007	504.607	19.026	17.151
BIFC	2008	518.026	19.041	17.935
BIFC	2009	857.032	32.819	28.792
BIFC	2010	1212.874	39.366	45.48
BIFC	2011	1331.838	62.173	37.272
Fidelity (FAS Finance)	2006	62.481	2.741	1.866
Fidelity (FAS Finance)	2007	159.233	6.395	5.151
Fidelity (FAS Finance)	2008	217.272	8.823	6.963
Fidelity (FAS Finance)	2009	309.094	10.88	11.023
Fidelity (FAS Finance)	2010	468.449	10.622	20.63
Fidelity (FAS Finance)	2011	511.789	20.394	16.662
International. Leasing	2006	1032.174	47.147	29.58
International. Leasing	2007	1278.693	54.301	39.39
International. Leasing	2008	1653.91	73.163	48.991
International. Leasing	2009	1991.56	81.914	63.129
International. Leasing	2010	2882.003	91.936	109.142
International. Leasing	2011	2547.258	108.969	77.936
IPDC	2006	1170.262	46.827	37.968
IPDC	2007	888.245	41.465	24.858
IPDC	2008	864.671	37.726	25.963
IPDC	2009	817.924	32.642	26.595
IPDC	2010	814.914	27.978	29.535
IPDC	2011	870.156	33.232	29.293
Islamic Finance	2006	431.787	15.066	15.488
Islamic Finance	2007	494.621	17.535	17.557
Islamic Finance	2008	596.477	20.74	21.443
Islamic Finance	2009	764.32	24.873	28.616
Islamic Finance	2010	777.452	26.723	28.157
Islamic Finance	2011	773.846	31.606	24.679

Company	Year	Deposit & Borrowing (Million Taka)	No. of Employee	Fixed Assets (Million Taka)
LankaBangla Finance	2006	405.819	11.958	16.029
LankaBangla Finance	2007	725.722	24.133	26.826
LankaBangla Finance	2008	1009.68	34.214	36.896
LankaBangla Finance	2009	1551.948	47.496	60.117
LankaBangla Finance	2010	1458.835	49.829	53.045
LankaBangla Finance	2011	2788.136	94.603	101.801
Midas Financing Ltd.	2006	167.484	7.526	4.883
Midas Financing Ltd.	2007	236.811	9.963	7.358
Midas Financing Ltd.	2008	426.815	14.452	15.604
Midas Financing Ltd.	2009	246.29	7.923	9.282
Midas Financing Ltd.	2010	647.934	22.078	23.596
Midas Financing Ltd.	2011	733.247	23.249	27.863
Peoples Leasing (PLFS)	2006	444.129	17.978	14.272
Peoples Leasing (PLFS)	2007	615.537	27.979	17.731
Peoples Leasing (PLFS)	2008	859.571	34.78	27.631
Peoples Leasing (PLFS)	2009	1262.671	47.014	43.314
Peoples Leasing (PLFS)	2010	2563.236	73.11	102.859
Peoples Leasing (PLFS)	2011	2456.574	103.273	76.375
Phoenix Finance & Inv.	2006	916.393	42.779	25.646
Phoenix Finance & Inv.	2007	1102.035	48.377	32.893
Phoenix Finance & Inv.	2008	1345.248	58.504	40.52
Phoenix Finance & Inv.	2009	1653.787	66.454	53.47
Phoenix Finance & Inv.	2010	2179.189	68.61	83.132
Phoenix Finance & Inv.	2011	1915.864	81.538	58.899
Premier Leasing & Fin.	2006	314.629	10.652	11.503
Premier Leasing & Fin.	2007	471.191	17.762	16.018
Premier Leasing & Fin.	2008	1346.58	54.96	42.968
Premier Leasing & Fin.	2009	2285.659	60.416	94.914
Premier Leasing & Fin.	2010	3818.32	63	183.92
Premier Leasing & Fin.	2011	2322.876	66.113	93.308
Prime Finance	2006	556.547	22.655	17.799
Prime Finance	2007	927.619	25.887	37.606
Prime Finance	2008	1047.445	30.054	41.913
Prime Finance	2009	1856.529	39.396	83.564
Prime Finance	2010	4028.885	73.314	189.489
Prime Finance	2011	2322.876	66.113	93.308
Union Capital Ltd.	2006	258.837	10.47	8.322
Union Capital Ltd.	2007	448.474	14.76	16.68
Union Capital Ltd.	2008	655.303	21.028	24.733
Union Capital Ltd.	2009	1074.533	32.795	41.684

Company	Year	Deposit & Borrowing (Million Taka)	No. of Employee	Fixed Assets (Million Taka)
Union Capital Ltd.	2010	2103.549	44.47	94.796
Union Capital Ltd.	2011	1463.904	58.015	47.872
United Leasing Com. Ltd	2006	904.068	42.204	25.301
United Leasing Com. Ltd	2007	1138.002	53.013	31.922
United Leasing Com. Ltd	2008	1431.721	66.836	40.068
United Leasing Com. Ltd	2009	1412.934	65.959	39.542
United Leasing Com. Ltd	2010	1456.292	67.983	40.755
United Leasing Com. Ltd	2011	1527.811	69.587	43.917
Uttara Finance & Inv. Ltd	2006	1084.285	47.138	32.671
Uttara Finance & Inv. Ltd	2007	1611.734	74.718	45.454
Uttara Finance & Inv. Ltd	2008	1692.29	79	47.36
Uttara Finance & Inv. Ltd	2009	1910.839	84.377	56.703
Uttara Finance & Inv. Ltd	2010	2160.061	84.861	71.133
Uttara Finance & Inv. Ltd	2011	3117.18	124.814	101.08

Technical Efficiency and its decomposition:

As stated before, technical efficiency is determined by the proximity of the firms to the efficient production frontier. The efficient frontier can be derived under constant return to scale and variable return to scale. The efficiency score under VRS is always higher or equal to that under CRS. So the measure of TE under VRS is confounded by scale efficiencies. [If we change the assumption of Technical Efficiency (VRS) to Technical Efficiency (CRS), the remaining percentage of technical efficiency (VRS) is called Scale Efficiency.]

Company	Year	TE(CRS)	TE(VRS)	Scale Efficiency
IDLC Finance Ltd.	2006	0.281	0.285	0.989
IDLC Finance Ltd.	2007	0.311	0.421	0.739
IDLC Finance Ltd.	2008	0.319	0.502	0.636
IDLC Finance Ltd.	2009	0.412	0.85	0.485
IDLC Finance Ltd.	2010	0.461	1	0.461
IDLC Finance Ltd.	2011	0.406	1	0.406
Bay Leasing and Inv. Ltd.	2006	0.613	0.728	0.842
Bay Leasing and Inv. Ltd.	2007	0.346	0.503	0.688
Bay Leasing and Inv. Ltd.	2008	0.341	0.401	0.85
Bay Leasing and Inv. Ltd.	2009	0.336	0.381	0.882
Bay Leasing and Inv. Ltd.	2010	0.418	0.48	0.871
Bay Leasing and Inv. Ltd.	2011	0.28	0.347	0.808

BFIC	2006	0.572	0.914	0.626
BFIC	2007	0.932	1	0.932
BFIC	2008	0.576	0.755	0.763
BFIC	2009	0.344	0.507	0.68
BFIC	2010	0.409	0.482	0.848
BFIC	2011	0.303	0.349	0.87
BIFC	2006	0.789	1	0.789
BIFC	2007	0.665	0.924	0.72
BIFC	2008	0.355	0.553	0.641
BIFC	2009	0.388	0.474	0.818
BIFC	2010	0.438	0.465	0.942
BIFC	2011	0.469	0.483	0.972
Fidelity (FAS Finance)	2006	0.289	1	0.289
Fidelity (FAS Finance)	2007	0.435	0.961	0.452
Fidelity (FAS Finance)	2008	0.347	0.712	0.487
Fidelity (FAS Finance)	2009	0.52	0.757	0.687
Fidelity (FAS Finance)	2010	0.437	0.635	0.688
Fidelity (FAS Finance)	2011	0.541	0.672	0.805
International. Leasing	2006	1	1	1
International. Leasing	2007	1	1	1
International. Leasing	2008	1	1	1
International. Leasing	2009	0.509	1	0.509
International. Leasing	2010	0.775	1	0.775
International. Leasing	2011	0.639	1	0.639
IPDC	2006	0.935	1	0.935
IPDC	2007	0.755	0.817	0.924
IPDC	2008	0.469	0.511	0.918
IPDC	2009	0.436	0.508	0.86
IPDC	2010	0.321	0.418	0.77
IPDC	2011	0.314	0.39	0.806
Islamic Finance	2006	0.797	1	0.797
Islamic Finance	2007	0.716	0.88	0.813
Islamic Finance	2008	0.458	0.556	0.825
Islamic Finance	2009	0.532	0.602	0.882
Islamic Finance	2010	0.48	0.544	0.883
Islamic Finance	2011	0.278	0.341	0.816
LankaBangla Finance	2006	0.357	0.497	0.719
LankaBangla Finance	2007	0.337	0.388	0.869
LankaBangla Finance	2008	0.362	0.388	0.932
LankaBangla Finance	2009	0.391	0.394	0.991
LankaBangla Finance	2010	0.322	0.324	0.992

LankaBangla Finance	2011	0.662	1	0.662
Midas Financing Ltd.	2006	0.282	0.604	0.467
Midas Financing Ltd.	2007	0.273	0.445	0.614
Midas Financing Ltd.	2008	0.28	0.413	0.678
Midas Financing Ltd.	2009	0.129	0.328	0.392
Midas Financing Ltd.	2010	0.245	0.338	0.726
Midas Financing Ltd.	2011	0.197	0.259	0.758
Peoples Leasing (PLFS)	2006	0.458	0.711	0.645
Peoples Leasing (PLFS)	2007	0.557	0.743	0.75
Peoples Leasing (PLFS)	2008	0.463	0.517	0.897
Peoples Leasing (PLFS)	2009	0.405	0.436	0.929
Peoples Leasing (PLFS)	2010	0.742	0.873	0.85
Peoples Leasing (PLFS)	2011	0.601	1	0.601
Phoenix Finance & Inv.	2006	0.391	0.421	0.929
Phoenix Finance & Inv.	2007	0.347	0.365	0.951
Phoenix Finance & Inv.	2008	0.342	0.351	0.974
Phoenix Finance & Inv.	2009	0.382	0.387	0.988
Phoenix Finance & Inv.	2010	0.431	0.434	0.994
Phoenix Finance & Inv.	2011	1	1	1
Premier Leasing & Fin.	2006	0.597	1	0.597
Premier Leasing & Fin.	2007	0.53	0.774	0.684
Premier Leasing & Fin.	2008	1	1	1
Premier Leasing & Fin.	2009	0.943	0.954	0.988
Premier Leasing & Fin.	2010	1	1	1
Premier Leasing & Fin.	2011	0.478	0.48	0.995
Prime Finance	2006	0.509	0.745	0.684
Prime Finance	2007	1	1	1
Prime Finance	2008	1	1	1
Prime Finance	2009	0.414	0.448	0.924
Prime Finance	2010	0.937	1	0.937
Prime Finance	2011	0.472	0.474	0.995
Union Capital Ltd.	2006	0.495	0.922	0.536
Union Capital Ltd.	2007	0.493	0.703	0.701
Union Capital Ltd.	2008	0.529	0.638	0.83
Union Capital Ltd.	2009	0.57	0.62	0.918
Union Capital Ltd.	2010	1	1	1
Union Capital Ltd.	2011	0.513	0.519	0.988
United Leasing Com. Ltd	2006	0.503	0.536	0.939
United Leasing Com. Ltd	2007	0.496	0.502	0.988
United Leasing Com. Ltd	2008	0.515	0.563	0.914
United Leasing Com. Ltd	2009	0.519	0.559	0.93
United Leasing Com. Ltd	2010	0.511	0.551	0.929

United Leasing Com. Ltd	2011	0.378	0.387	0.977
Uttara Finance & Inv. Ltd	2006	0.398	0.434	0.916
Uttara Finance & Inv. Ltd	2007	0.981	0.987	0.994
Uttara Finance & Inv. Ltd	2008	1	1	1
Uttara Finance & Inv. Ltd	2009	0.487	0.593	0.821
Uttara Finance & Inv. Ltd	2010	0.423	0.525	0.805
Uttara Finance & Inv. Ltd	2011	0.565	1	0.565

Output slacks:

Slacks are very important in efficiency measurement. Output slacks are created when the hypothetical firm on the efficient frontier belongs in a position that the firm can increase its output by the slack quantity without increasing inputs.

Company	Year	Interest Revenue (Million Taka)	Non-Interest Revenue (Million Taka)
Bay Leasing and Inv. Ltd.	2006	0	18.076
Bay Leasing and Inv. Ltd.	2007	47.338	31.76
Bay Leasing and Inv. Ltd.	2010	26.079	0
BFIC	2010	16.491	0
BIFC	2011	0	28.629
Fidelity (FAS Finance)	2010	3.787	0
IPDC	2007	0	29.608
Midas Financing Ltd.	2006	0	4.146
Midas Financing Ltd.	2009	48.206	0
Peoples Leasing (PLFS)	2006	0	25.116
Peoples Leasing (PLFS)	2007	0	11.49
Phoenix Finance & Inv.	2006	0	30.909
Prime Finance	2009	182.556	0
Union Capital Ltd.	2006	0	1.963
United Leasing Com. Ltd	2006	0	82.787
United Leasing Com. Ltd	2007	0	107.726
United Leasing Com. Ltd	2008	0	101.263
United Leasing Com. Ltd	2009	0	100.033
United Leasing Com. Ltd	2010	0	74.284
United Leasing Com. Ltd	2011	0	24.718
Uttara Finance & Inv. Ltd	2009	0	15.341

Input Slacks

Input slacks also can be explained as the output slacks. The firms are compared to a hypothetical firm that belongs on the efficient frontier. When a hypothetical firm belongs in a position on the production frontier that the firm yet can reduce the inputs without reducing outputs the slack is created. Though the following firms are getting an efficiency score reported above, they can reduce their inputs without any decrease in their efficiency scores.

Company	Year	Deposit & Borrowing (Million Taka)	No of Employee	Fixed Assets (Million Taka)
IDLC Finance Ltd.	2006	0	0	6.146
IDLC Finance Ltd.	2009	0	10.461	0
Bay Leasing and Inv.	2006	0	0	81.319
Bay Leasing and Inv.	2007	0	0	56.095
Bay Leasing and Inv.	2008	0	0	34.766
Bay Leasing and Inv.	2009	0	0	101.51
Bay Leasing and Inv.	2010	0	0	114.112
Bay Leasing and Inv.	2011	0	0	212.594
BFIC	2008	0	3.583	0
BFIC	2010	0	0	32.545
BFIC	2011	0	0	26.112
Fidelity (FAS Finance)	2007	0	0	1.902
Fidelity (FAS Finance)	2009	0	0	42.929
Fidelity (FAS Finance)	2010	0	0	223.865
Fidelity (FAS Finance)	2011	0	0	223.058
IPDC	2007	0	0	55.77
IPDC	2008	0	0	1.329
Islamic Finance	2007	0	11.127	0
Islamic Finance	2010	0	1.833	0
LankaBangla Finance	2007	0	17.634	0
LankaBangla Finance	2008	0	32.56	0
LankaBangla Finance	2009	0	10.358	0
LankaBangla Finance	2010	0	12.803	0
Midas Financing Ltd.	2006	0	15.179	0
Midas Financing Ltd.	2007	0	0	8.074
Midas Financing Ltd.	2008	0	0	15.418
Midas Financing Ltd.	2009	0	0	9.227
Peoples Leasing (PLFS)	2006	0	4.14	0

Phoenix Finance & Inv.	2006	0	0	10.506
Phoenix Finance & Inv.	2007	0	0	52.755
Phoenix Finance & Inv.	2008	0	0	31.548
Phoenix Finance & Inv.	2009	0	0	26.586
Phoenix Finance & Inv.	2010	0	0	272.957
Premier Leasing & Fin.	2009	0	0	74.12
Premier Leasing & Fin.	2011	0	0	75.65
Prime Finance	2009	0	0	62.31
Prime Finance	2011	0	0	73.268
Union Capital Ltd.	2007	0	0.799	0
Union Capital Ltd.	2008	0	1.701	0
Union Capital Ltd.	2009	0	14.663	0
Union Capital Ltd.	2011	0	7.622	0
United Leasing	2006	0	14.272	0
United Leasing	2007	0	18.748	0
United Leasing	2008	0	47.65	0
United Leasing	2009	0	37.772	0
United Leasing	2010	0	59.669	0
United Leasing	2011	0	40.11	0
Uttara Finance & Inv.	2007	0	2.389	0
Uttara Finance & Inv.	2009	0	0	40.605
Uttara Finance & Inv.	2010	0	0	20.284

The three most efficient and least efficient firms in each year according to V.R.S:

Under the assumption of VRS, the three most efficient firms from 2006 to 2011 are as follows:

Year	1 st Highest		2 nd Highest		3 rd Highest	
	Company Name	Score	Company Name	Score	Company Name	Score
2006	Fidelity (FAS)	1	IPDC	0.952	Islamic Finance	0.942
2007	Uttara Finance	0.964	Fidelity (FAS)	0.831	Islamic Finance	0.713
2008	Uttara Finance	1	Premier Leasing	0.622	Fidelity(FAS)	0.591
2009	IDLC	0.784	Fidelity(FAS)	0.734	Premier Leasing	0.679
2010	Prime Finance Premier Leasing	1	IDLC	0.952	Fidelity (FAS)	0.567
2011	Phoenix Finance IDLC	1	Uttara Finance	0.961	Peoples Leasing	0.657

In 2006, Fidelity (FAS) was the highest efficient firm and the score is 1 and IPDC was second with score .952 and Islamic Finance was third with score .942. In 2007, Uttara Finance, Fidelity (FAS) and Islamic Finance were first, second and third with score .964, .831 and .713 respectively. In 2008, Uttara Finance, Premier Leasing and Fidelity (FAS) were first, second and third with score 1, .622 and .591. In 2009, IDLC, Fidelity (FAS) and Premier Leasing were first, second and third position with score 0.784, .734 and .697. In 2010, Both Prime Finance and Premier Leasing were in first position with score 1 and IDLC in second position with score.952 and Fidelity (FAS) was in third position scoring 0.567. In 2011, Phoenix Finance and IDLC were both in first position with score 1 and Uttara Finance were in second position with score .961 and Peoples leasing was in the third position scoring 0.657.

Under the assumption of VRS, the three least efficient firms from 2006 to 2011 are as follows:

Year	1 st Lowest		2 nd Lowest		3 rd Lowest	
	Company Name	Score	Company Name	Score	Company Name	Score
2006	IDLC	0.215	Uttara Fiance	0.25	Phoenix Finance	0.271
2007	LankaBangla Finance	0.207	Bay Leasing and Inv.	0.209	Phoenix Finance	0.245
2008	LankaBangla Finance	0.197	Bay Leasing and Inv.	0.232	Phoenix Finance	0.244
2009	LankaBangla Finance	0.216	Bay Leasing and Inv.	0.222	Midas Financing Ltd.	0.249
2010	LankaBangla Finance	0.208	Midas Financing Ltd.	0.278	BIFC	0.291
2011	Midas Financing Ltd.	0.194	BFIC	0.229	United Leasing	0.261

In 2006, IDLC, Uttara Fiance and Phoenix were least three efficient firm with score 0.215, 0.25 and 0.271 respectively. In 2007 LankaBangla, Bay Leasing and Phoenix were least three efficient firms with score 0.207, 0.209 and 0.245 respectively. In 2008, LankaBangla, Bay Leasing and Phoenix were least three efficient firms with score 0.197, 0.232 and 0.244 respectively. In 2009 LankaBangla, Bay Leasing and Midas Fin were least three efficient firms with score 0.216, 0.222 and 0.249 respectively. In 2010 LankaBangla, Midas Fin and BIFC were least three efficient firms with score 0.208, 0.278 and 0.291 respectively. In 2011 Midas Fin,

BFIC and United leasing were least three efficient firms with score 0.194, 0.229 and 0.261 respectively.

The three most efficient and least efficient firms in each year according to C.R.S:

Under the assumption of CRS, the three most efficient firms from 2006 to 2011 are as follows:

	1 st Highest		2 nd Highest		3 rd Highest	
Year	Company Name	Score	Company Name	Score	Company Name	Score
2006	IPDC	0.895	Islamic Finance	0.691	BIFC	0.468
2007	Uttara Finance	0.958	Islamic Finance	0.549	IPDC	0.533
2008	Uttara Finance	1	Premier Leasing	0.591	Prime Finance	0.427
2009	Premier Leasing	0.667	Fidelity (FAS)	0.478	Islamic Finance	0.302
2010	Premier Leasing	1	Prime Finance	0.597	Union Capital Ltd.	0.467
2011	Phoenix Finance	0.877	Fidelity (FAS)	0.518	Uttara Finance	0.373

In 2006, IPDC, Islamic Fin and BIFC were three most efficient firm with score 0.895, 0.691 and 0.468 respectively. In 2007, Uttara Finance, Islamic Fin and IPDC were three most efficient firm with score 0.958, 0.549 and 0.533 respectively. In 2008, Uttara Fiance, Premier Leasing and Prime Finance were three most efficient firm with score 1, 0.591 and 0.427 respectively. In 2009, Premier Leasing, Fidelity (FAS) and Islamic Fin were three most efficient firm with score 0.667, 0.478 and 0.302 respectively. In 2010, Premier Leasing, Prime Finance and Union Capital were three most efficient firms with score 1, 0.597 and 0.467 respectively. In 2011, Phoenix, Fidelity (FAS) and Uttara Fiance were three most efficient firm with score 0.877, 0.518 and 0.373 respectively.

Under the assumption of CRS, the three least efficient firms from 2006 to 2011 are as follows:

	1 st Lowest		2 nd Lowest		3 rd Lowest	
Year	Company Name	Score	Company Name	Score	Company Name	Score
2006	IDLC	0.21	Midas Financing Ltd.	0.211	Uttara Finance	0.231
2007	Bay Leasing and Inv.	0.15	LankaBangla	0.171	IDLC	0.225
2008	LankaBangla	0.176	Bay Leasing and Inv.	0.191	Phoenix Finance	0.234
2009	Midas Financing Ltd.	0.123	Bay Leasing and Inv.	0.191	LankaBangla Finance	0.204
2010	LankaBangla Finance	0.195	Midas Fin	0.217	Uttara Finance	0.26
2011	Midas Fin	0.149	BFIC	0.19	Bay Leasing and Inv.	0.237

In 2006, IDLC, Midas Fin and Uttara Finance were three least efficient firm with score 0.21, 0.211 and 0.231 respectively. In 2007, Bay Leasing, LankaBangla and IDLC were three least efficient firm with score 0.15, 0.171 and 0.225 respectively. In 2008, LankaBangla, Bay Leasing and Phoenix were three least efficient firm with score 0.176, 0.191 and 0.234 respectively. In 2009, Midas Fin, Bay Leasing and LankaBangla were three least efficient firm with score 0.123, 0.191 and 0.204 respectively. In 2010, LankaBangla, Midas Fin and Uttara Finance were three least efficient firm with score 0.195, 0.217 and 0.26 respectively. In 2011, Midas Fin, BFIC and Bay Leasing were three least efficient firm with score 0.149, 0.19 and 0.237 respectively.

CHAPTER-7

COMPARISON BETWEEN LEASE FINANCING AND TERM FINANCING IN BANGLADESH

Problems faced by leasing companies in Bangladesh

As because of some advantages, some of the borrowers prefer lease financing than term loan in Bangladesh. Leasing companies face some problems in conducting their business in Bangladesh. The comparatively slow increase of the demand side compared to the fast expansion of the lease business is one such problem. This leads many leasing companies to run in partial ability. The culture of loan default that prevails in the country is also a problem. Leasing companies often find it complicated to increase funds through short or long-term borrowing from money and capital markets. Lease financing as a mode of finance, has some advantages like the provision of collateral, no third party guarantee for lease, faster service, less documentation etc. In spite of these advantages, lease financing has some problems also. Higher interest rate, restriction on equipment use, loss of residual value etc. are the disadvantages of lease financing. Lease financing was becoming popular in the previous years and the growth of lease financing was increasing in Bangladesh. But in recent years it has been found that most of the firms have reduced the use of lease financing.

When the equipment is selected by the lessee and if it is a local purchase, the lessee has to incur an additional cost of around 4% for Value Added Tax (VAT) and Advance Income Tax (AIT) at present in Bangladesh.

Before 2004, the financial lease was treated as off balance sheet item like operating lease. But the accounting law, BAS-17, has made the financial lease to be treated as on balance sheet item. Before the revised accounting standard-BAS-17, the total rental payment (Both the principal amount and the interest) had to be shown in the income statement of the leasing firm and was not needed to show in the balance sheet of the leasing firm. For that reason, the lessee firm would get the tax benefit. Both the interest and principal of the lease amount were treated as an expense for

the firm. So, tax would not be charged for the rental payment of lease. As a result, the lessee firm would be benefitted. In 2004, after the inclusion of BAS-17, only the interest payment is charged as an expense and the principal amount is not treated as an expense. The lease asset has to be shown in the balance sheet of the lessee firm in asset side. The amount of lease payable has to be shown in the liability side of the balance sheet. The depreciation of the asset has to be shown in the income statement as an expense. Though, the lessee is getting tax benefit on the interest and the depreciation but the lessee is now not benefitted as before when the total rental payment (the principal amount and the interest) was considered and treated as an expense in the income statement of the lessee firm. So the demand for lease financing has declined for that reason.

Another reason is that, the leasing companies or the banks can not show the lease asset in their balance sheet and they cannot show the depreciation in their (lessor's) income statement. So, the leasing companies or the banks are not getting the tax benefit on the depreciation amount now. As a result, their interest on lease financing has been declined also.

Whether we can consider lease financing as the substitute of term financing in Bangladesh or not could be an issue that should be identified. For that reason, 50 firms' capital structures for 5 years (those firms which have taken lease financing from banks or leasing companies) have been collected. From the capital structure of those firms, proportions of loan and proportions of lease have been analyzed. Proportion test has been used to find out whether there is any significant difference between the proportions of loan and proportions of lease of those 50 firms for 5 years or not.

Capital Structures of Different Firms

Capital Structure of Different Firm's										
Company Name	Year	Total Equity	% of Total Equity	Total Loan	% of lone	Total Lease	% of lease	Total Capital	Total Asset	Products
	2011	2500000.00	78.13	550000.00	17.19	150000.00	4.69	3200000.00	3456000.00	
	2010	2360000.00	77.12	475000.00	15.52	225000.00	7.35	3060000.00	3304800.00	
Sassy	2009	2180000.00	73.15	500000.00	16.78	300000.00	10.07	2980000.00	3218400.00	Leather
	2008	2070000.00	79.01	300000.00	11.45	250000.00	9.54	2620000.00	2829600.00	
	2007	1860000.00	76.39	275000.00	11.29	300000.00	12.32	2435000.00	2629800.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	3580000.00	85.65	350000.00	8.37	250000.00	5.98	4180000.00	4639800.00	
	2010	3450000.00	80.80	520000.00	12.18	300000.00	7.03	4270000.00	4739700.00	
Rahman Lather Goods	2009	3370000.00	77.12	650000.00	14.87	350000.00	8.01	4370000.00	4850700.00	Leather
	2008	3160000.00	74.00	710000.00	16.63	400000.00	9.37	4270000.00	4739700.00	
	2007	2800000.00	68.46	840000.00	20.54	450000.00	11.00	4090000.00	4539900.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	3500000.00	75.59	700000.00	15.12	430000.00	9.29	4630000.00	5300000.00	
	2010	3200000.00	77.67	550000.00	13.35	370000.00	8.98	4120000.00	4900000.00	
Duce Leather	2009	2800000.00	78.43	470000.00	13.17	300000.00	8.40	3570000.00	4100000.00	Leather
	2008	2200000.00	80.00	300000.00	10.91	250000.00	9.09	2750000.00	3500000.00	
	2007	1800000.00	81.45	220000.00	9.95	190000.00	8.60	2210000.00	3100000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	5500000.00	74.63	1100000.00	14.93	770000.00	10.45	7370000.00	9000000.00	
	2010	4800000.00	76.31	800000.00	12.72	690000.00	10.97	6290000.00	8500000.00	
LeatheReign	2009	4300000.00	73.13	950000.00	16.16	630000.00	10.71	5880000.00	8100000.00	Leather
	2008	3900000.00	74.22	700000.00	13.32	655000.00	12.46	5255000.00	7500000.00	
	2007	3400000.00	72.03	750000.00	15.89	570000.00	12.08	4720000.00	6800000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	2800000.00	86.82	200000.00	6.20	225000.00	6.98	3225000.00	4500000.00	
	2010	2500000.00	87.57	155000.00	5.43	200000.00	7.01	2855000.00	4000000.00	
3 Tech	2009	2200000.00	90.16	130000.00	5.33	110000.00	4.51	2440000.00	3400000.00	Leather
	2008	1800000.00	88.67	100000.00	4.93	130000.00	6.40	2030000.00	2800000.00	
	2007	1300000.00	86.09	95000.00	6.29	115000.00	7.62	1510000.00	2000000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	1400000.00	62.50	500000.00	22.32	340000.00	15.18	2240000.00	2800000.00	
	2010	1340000.00	59.00	575000.00	25.32	356000.00	15.68	2271000.00	2840000.00	
Creative Connection	2009	1100000.00	59.78	430000.00	23.37	310000.00	16.85	1840000.00	2560000.00	Jute
	2008	1060000.00	59.89	460000.00	25.99	250000.00	14.12	1770000.00	2340000.00	
	2007	975000.00	60.75	410000.00	25.55	220000.00	13.71	1605000.00	1970000.00	

Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	2380000.00	79.87	340000.00	11.41	260000.00	8.72	2980000.00	3382300.00	
	2010	2280000.00	80.99	290000.00	10.30	245000.00	8.70	2815000.00	3195025.00	
DWCCI	2009	2170000.00	81.43	295000.00	11.07	200000.00	7.50	2665000.00	3024775.00	Ornament & Jute
	2008	1930000.00	80.92	275000.00	11.53	180000.00	7.55	2385000.00	2706975.00	
	2007	1735000.00	82.19	231000.00	10.94	145000.00	6.87	2111000.00	2395985.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	1710000.00	77.73	350000.00	15.91	140000.00	6.36	2200000.00	2354000.00	
	2010	1560000.00	75.00	300000.00	14.42	220000.00	10.58	2080000.00	2225600.00	
Jahan Handicrafts	2009	1470000.00	77.78	260000.00	13.76	160000.00	8.47	1890000.00	2022300.00	Handicrafts
	2008	1260000.00	67.74	400000.00	21.51	200000.00	10.75	1860000.00	1990200.00	
	2007	1020000.00	59.30	450000.00	26.16	250000.00	14.53	1720000.00	1840400.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	560000.00	59.57	200000.00	21.28	180000.00	19.15	940000.00	1024600.00	
	2010	430000.00	54.78	175000.00	22.29	180000.00	22.93	785000.00	855650.00	
SilverLink Internationall Ltd.	2009	435000.00	53.05	210000.00	25.61	175000.00	21.34	820000.00	893800.00	ornaments, jewellery,
	2008	405000.00	52.26	185000.00	23.87	185000.00	23.87	775000.00	844750.00	
	2007	390000.00	51.52	180000.00	23.78	187000.00	24.70	757000.00	825130.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	875000.00	59.93	360000.00	24.66	225000.00	15.41	1460000.00	1960000.00	
	2010	820000.00	60.52	330000.00	24.35	205000.00	15.13	1355000.00	1870000.00	
Jumbi	2009	770000.00	60.16	315000.00	24.61	195000.00	15.23	1280000.00	1730000.00	Handicrafts
	2008	730000.00	59.59	310000.00	25.31	185000.00	15.10	1225000.00	1695000.00	
	2007	700000.00	58.14	320000.00	26.58	184000.00	15.28	1204000.00	1660000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	1890000.00	61.76	670000.00	21.90	500000.00	16.34	3060000.00	3900000.00	
	2010	1715000.00	63.52	510000.00	18.89	475000.00	17.59	2700000.00	3800000.00	
Raynnabi	2009	1650000.00	59.25	685000.00	24.60	450000.00	16.16	2785000.00	3550000.00	Handicrafts
	2008	1600000.00	74.07	350000.00	16.20	210000.00	9.72	2160000.00	3200000.00	
	2007	1450000.00	67.13	450000.00	20.83	260000.00	12.04	2160000.00	3000000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	2550000.00	74.56	520000.00	15.20	350000.00	10.23	3420000.00	3693600.00	
	2010	2390000.00	74.69	490000.00	15.31	320000.00	10.00	3200000.00	3456000.00	
M/S Rony Poultry Incubator Co. Ltd	2009	2224000.00	74.28	465000.00	15.53	305000.00	10.19	2994000.00	3233520.00	Poultry
	2008	2070000.00	74.59	410000.00	14.77	295000.00	10.63	2775000.00	2997000.00	
	2007	1850000.00	72.27	435000.00	16.99	275000.00	10.74	2560000.00	2764800.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	750000.00	61.22	350000.00	28.57	125000.00	10.20	1225000.00	1540000.00	
	2010	720000.00	67.61	235000.00	22.07	110000.00	10.33	1065000.00	1470000.00	
Kazal Collection	2009	680000.00	64.45	195000.00	18.48	180000.00	17.06	1055000.00	1390000.00	Tissue Box cover
	2008	625000.00	65.45	210000.00	21.99	120000.00	12.57	955000.00	1650000.00	
	2007	560000.00	56.28	300000.00	30.15	135000.00	13.57	995000.00	1410000.00	

Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	550000.00	68.75	150000.00	18.75	100000.00	12.50	800000.00	896000.00	
	2010	490000.00	62.82	180000.00	23.08	110000.00	14.10	780000.00	873600.00	
Shamima Boutique	2009	424000.00	55.35	172000.00	22.45	170000.00	22.19	766000.00	857920.00	Boutique
	2008	400000.00	47.90	285000.00	34.13	150000.00	17.96	835000.00	935200.00	
	2007	405000.00	45.76	300000.00	33.90	180000.00	20.34	885000.00	991200.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	3100000.00	69.58	1200000.00	26.94	155000.00	3.48	4455000.00	5000000.00	
	2010	2950000.00	70.74	1050000.00	25.18	170000.00	4.08	4170000.00	4850000.00	
Atashi	2009	2800000.00	72.26	975000.00	25.16	100000.00	2.58	3875000.00	4470000.00	Handicrafts
	2008	2670000.00	71.58	910000.00	24.40	150000.00	4.02	3730000.00	4200000.00	
	2007	2500000.00	67.57	1000000.00	27.03	200000.00	5.41	3700000.00	4190000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	1400000.00	86.42	100000.00	6.17	120000.00	7.41	1620000.00	1863000.00	
	2010	1315000.00	87.38	50000.00	3.32	140000.00	9.30	1505000.00	1730750.00	
Eva Enterprise	2009	1360000.00	79.53	150000.00	8.77	20000.00	11.70	1710000.00	1966500.00	Cosmetics
	2008	1350000.00	70.31	300000.00	15.63	270000.00	14.06	1920000.00	2208000.00	
	2007	1200000.00	63.16	400000.00	21.05	300000.00	15.79	1900000.00	2185000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	2800000.00	86.15	200000.00	6.15	250000.00	7.69	3250000.00	3800000.00	
	2010	2730000.00	83.74	230000.00	7.06	300000.00	9.20	3260000.00	3820000.00	
New Sumatra	2009	2680000.00	73.32	575000.00	15.73	400000.00	10.94	3655000.00	4160000.00	Bag Manufacturer
	2008	2450000.00	72.70	500000.00	14.84	420000.00	12.46	3370000.00	3980000.00	
	2007	2200000.00	63.77	750000.00	21.74	500000.00	14.49	3450000.00	4080000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	4580000.00	91.05	200000.00	3.98	250000.00	4.97	5030000.00	5683900.00	
	2010	4350000.00	89.14	230000.00	4.71	300000.00	6.15	4880000.00	5514400.00	
Labanno Boutique	2009	4270000.00	81.41	575000.00	10.96	400000.00	7.63	5245000.00	5926850.00	Cloths manufacturer
	2008	3940000.00	81.07	500000.00	10.29	420000.00	8.64	4860000.00	5491800.00	
	2007	3750000.00	75.00	750000.00	15.00	500000.00	10.00	5000000.00	5650000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	2200000.00	79.85	375000.00	13.61	180000.00	6.53	2755000.00	3000000.00	
	2010	2100000.00	75.68	450000.00	16.22	225000.00	8.11	2775000.00	3500000.00	
Antique Boutique	2009	1980000.00	83.90	180000.00	7.63	200000.00	8.47	2360000.00	2800000.00	Boutique for furniture cloths
	2008	1850000.00	77.08	300000.00	12.50	250000.00	10.42	2400000.00	2890000.00	
	2007	1600000.00	69.57	500000.00	21.74	200000.00	8.70	2300000.00	2780000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	1490000.00	88.43	120000.00	7.12	75000.00	4.45	1685000.00	1850000.00	
	2010	1400000.00	90.32	100000.00	6.45	50000.00	3.23	1550000.00	1800000.00	
Ittadi Handicraft & Food Products	2009	1300000.00	74.71	340000.00	19.54	100000.00	5.75	1740000.00	1935000.00	Baby Cloths & Foods
	2008	1150000.00	68.66	400000.00	23.88	125000.00	7.46	1675000.00	1910000.00	
	2007	1000000.00	76.92	200000.00	15.38	100000.00	7.69	1300000.00	1580000.00	

Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	1790000.00	75.53	400000.00	16.88	180000.00	7.59	2370000.00	2678100.00	
	2010	1650000.00	71.90	420000.00	18.30	225000.00	9.80	2295000.00	2593350.00	
Nini's Collection	2009	1600000.00	74.25	355000.00	16.47	200000.00	9.28	2155000.00	2435150.00	Baby Cloths
	2008	1550000.00	70.62	400000.00	18.22	245000.00	11.16	2195000.00	2480350.00	
	2007	1490000.00	69.63	380000.00	17.76	270000.00	12.62	2140000.00	2418200.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	1580000.00	88.76	200000.00	11.24	nil	#VALUE!	1780000.00	2114400.00	
	2010	1500000.00	79.79	350000.00	18.62	30000.00	1.60	1880000.00	2021400.00	
Ruby Shilpa Kutir	2009	1420000.00	80.68	300000.00	17.05	40000.00	2.27	1760000.00	1988800.00	Uptan, Hair oil, Cleanser
	2008	1250000.00	77.88	275000.00	17.13	80000.00	4.98	1605000.00	1813650.00	Face Pack, Body oil.
	2007	1300000.00	72.22	400000.00	22.22	100000.00	5.56	1800000.00	2034000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	3080000.00	73.51	910000.00	21.72	200000.00	4.77	4190000.00	4860400.00	
	2010	2990000.00	71.45	985000.00	23.54	210000.00	5.02	4185000.00	4854600.00	
Yaduns Enterprise	2009	3050000.00	67.18	1170000.00	25.77	320000.00	7.05	4540000.00	5266400.00	Rice Mill
	2008	3000000.00	66.96	1120000.00	25.00	360000.00	8.04	4480000.00	5196800.00	
	2007	2800000.00	62.92	1250000.00	28.09	400000.00	8.99	4450000.00	5162000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	9350000.00	82.60	1370000.00	12.10	600000.00	5.30	11320000.00	13018000.00	
	2010	8800000.00	80.00	1520000.00	13.82	680000.00	6.18	11000000.00	12650000.00	
Mollikas Boutique & Handicrafts	2009	8400000.00	79.62	1400000.00	13.27	750000.00	7.11	10550000.00	12132500.00	Fatua, Orna, Jeans, T-Shirt
	2008	8750000.00	77.43	1850000.00	16.37	700000.00	6.19	11300000.00	12995000.00	
	2007	8300000.00	72.33	2300000.00	20.04	875000.00	7.63	11475000.00	13196250.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	6040000.00	76.55	1350000.00	17.11	500000.00	6.34	7890000.00	8994600.00	
	2010	6000000.00	76.73	1300000.00	16.62	520000.00	6.65	7820000.00	8914800.00	
Aesthetica	2009	6200000.00	74.97	1520000.00	18.38	550000.00	6.65	8270000.00	9427800.00	RMG for Fatua Jeans, T-Shiirt
	2008	5800000.00	72.50	1700000.00	21.25	500000.00	6.25	8000000.00	9120000.00	
	2007	5500000.00	73.33	1650000.00	22.00	350000.00	4.67	7500000.00	8550000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	3700000.00	82.96	500000.00	11.21	260000.00	5.83	4460000.00	4995200.00	
	2010	3600000.00	82.38	650000.00	14.87	120000.00	2.75	4370000.00	4894400.00	
Meena Boutiques	2009	3350000.00	77.37	800000.00	18.48	180000.00	4.16	4330000.00	4849600.00	Ladies T-Shirt, Ladies Fatua
	2008	3300000.00	74.53	888000.00	20.05	240000.00	5.42	4428000.00	4959360.00	
	2007	3500000.00	76.92	750000.00	16.48	300000.00	6.59	4550000.00	5096000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	4300000.00	80.83	700000.00	13.16	320000.00	6.02	5320000.00	5958400.00	
	2010	4100000.00	76.71	870000.00	16.28	375000.00	7.02	5345000.00	5986400.00	
Saat Rang Handicraft & Fashion	2009	3900000.00	75.44	850000.00	16.44	420000.00	8.12	5170000.00	5790400.00	Fatua, Ladies Shirt, Bed
	2008	4220000.00	74.43	900000.00	15.87	550000.00	9.70	5670000.00	6350400.00	Cover, Regular Katha,
	2007	4000000.00	73.39	950000.00	17.43	500000.00	9.17	5450000.00	6104000.00	Comforter
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products

	2011	2900000.00	76.72	600000.00	15.87	280000.00	7.41	3780000.00	4195800.00	
	2010	3100000.00	75.98	620000.00	15.20	360000.00	8.82	4080000.00	4528800.00	
Shucharu	2009	3250000.00	74.88	650000.00	14.98	440000.00	10.14	4340000.00	4817400.00	Fatua, Unsteached Salwar-
	2008	3200000.00	74.51	575000.00	13.39	520000.00	12.11	4295000.00	4767450.00	Kamiz, Shari
	2007	3000000.00	73.17	500000.00	12.20	600000.00	14.63	4100000.00	4551000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	3800000.00	87.96	100000.00	2.31	420000.00	9.72	4320000.00	4665600.00	
	2010	3900000.00	86.28	120000.00	2.65	500000.00	11.06	4520000.00	4881600.00	
Eminent Fashion & Cottage Handicrafts	2009	3750000.00	83.33	280000.00	6.22	470000.00	10.44	4500000.00	4860000.00	Fatua, T-Shirt,
	2008	3700000.00	77.89	500000.00	10.53	550000.00	11.58	4750000.00	5130000.00	Jeans, Formal Shirt
	2007	3500000.00	72.92	700000.00	14.58	600000.00	12.50	4800000.00	5184000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	3600000.00	85.71	350000.00	8.33	250000.00	5.95	4200000.00	4872000.00	
	2010	3370000.00	82.60	410000.00	10.05	300000.00	7.35	4080000.00	4732800.00	
Ashmika's	2009	3420000.00	80.85	630000.00	14.89	180000.00	4.26	4230000.00	4906800.00	Ladies Fatua, Salwar-Kamiz
	2008	3150000.00	85.37	300000.00	8.13	240000.00	6.50	3690000.00	4280400.00	Ladies T-Shirt, Cosmetics.
	2007	2800000.00	77.78	500000.00	13.89	300000.00	8.33	3600000.00	4176000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	7000000.00	72.61	1620000.00	16.80	1020000.00	10.58	9640000.00	10989600.00	Dyeing Three Piece,
	2010	6800000.00	70.61	1730000.00	17.96	1100000.00	11.42	9630000.00	10978200.00	Embroidery Three Piece,
Sejuti's Dream	2009	6520000.00	70.11	1630000.00	17.53	1150000.00	12.37	9300000.00	10602000.00	Unstreech Block Three Piece, Kurti
	2008	6300000.00	67.74	2000000.00	21.51	1000000.00	10.75	9300000.00	10602000.00	
	2007	5800000.00	69.05	1800000.00	21.43	800000.00	9.52	8400000.00	9576000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	3570000.00	76.45	620000.00	13.28	480000.00	10.28	4670000.00	5090300.00	
	2010	3400000.00	78.70	520000.00	12.04	400000.00	9.26	4320000.00	4708800.00	
Akansha	2009	3350000.00	78.45	600000.00	14.05	320000.00	7.49	4270000.00	4654300.00	Moslen Shari & Bed Cover
	2008	3100000.00	73.81	720000.00	17.14	380000.00	9.05	4200000.00	4578000.00	
	2007	2900000.00	70.30	775000.00	18.79	450000.00	10.91	4125000.00	4496250.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	3450000.00	79.68	500000.00	11.55	380000.00	8.78	4330000.00	4763000.00	
	2010	3300000.00	76.39	580000.00	13.43	440000.00	10.19	4320000.00	4708800.00	
Matuail Block and Jamdani House	2009	3200000.00	71.59	750000.00	16.78	520000.00	11.63	4470000.00	4872300.00	Jamdani Shari, 2-Pieces, 1-Piece
	2008	2820000.00	68.12	720000.00	17.39	600000.00	14.49	4140000.00	4512600.00	
	2007	2600000.00	68.06	800000.00	20.94	420000.00	10.99	3820000.00	4163800.00	

Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	2600000.00	86.67	300000.00	10.00	100000.00	3.33	3000000.00	3270000.00	
	2010	2450000.00	82.21	370000.00	12.42	160000.00	5.37	2980000.00	3248200.00	
Easmin Boutique and Fashion House	2009	2500000.00	80.13	400000.00	12.82	220000.00	7.05	3120000.00	3400800.00	Boutiques & Jute item
	2008	2370000.00	77.20	420000.00	13.68	280000.00	9.12	3070000.00	3346300.00	Piece
	2007	2200000.00	71.20	550000.00	17.80	340000.00	11.00	3090000.00	3368100.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	2300000.00	80.84	420000.00	14.76	125000.00	4.39	2845000.00	3157950.00	
	2010	2130000.00	72.70	600000.00	20.48	200000.00	6.83	2930000.00	3252300.00	
Rubina Angel Beauty Parlor & Boutiques	2009	2000000.00	69.57	600000.00	20.87	275000.00	9.57	2875000.00	3191250.00	Boutiques item & Parlour
	2008	1890000.00	65.40	650000.00	22.49	350000.00	12.11	2890000.00	3207900.00	
	2007	1750000.00	63.06	775000.00	27.93	250000.00	9.01	2775000.00	3080250.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	2730000.00	91.61	230000.00	7.72	20000.00	0.67	2980000.00	3143900.00	
	2010	2500000.00	87.41	300000.00	10.49	60000.00	2.10	2860000.00	3017300.00	
SP Academy	2009	2430000.00	85.26	320000.00	11.23	100000.00	3.51	2850000.00	3006750.00	Boutiques item
	2008	2260000.00	81.29	400000.00	14.39	120000.00	4.32	2780000.00	2932900.00	
	2007	2170000.00	80.97	350000.00	13.06	160000.00	5.97	2680000.00	2827400.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	4920000.00	81.80	720000.00	11.97	375000.00	6.23	6015000.00	6363870.00	
	2010	4800000.00	77.42	800000.00	12.90	600000.00	9.68	6200000.00	6559600.00	
Thai Poly Shawn (BD) Ltd.	2009	4640000.00	71.77	1000000.00	15.47	825000.00	12.76	6465000.00	6839970.00	Export Orient HDPI Bags
	2008	4170000.00	66.51	1050000.00	16.75	1050000.00	16.75	6270000.00	6633660.00	
	2007	3800000.00	64.96	1250000.00	21.37	800000.00	13.68	5850000.00	6189300.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	3160000.00	96.64	nil	#VALUE!	110000.00	3.36	3270000.00	3433500.00	
	2010	3000000.00	92.88	30000.00	0.93	200000.00	6.19	3230000.00	3391500.00	Tea Set, Cricket Set, Golf
Hafez Plastic Toy	2009	2570000.00	86.53	160000.00	5.39	240000.00	8.08	2970000.00	3118500.00	Set, Baby Toy Item
	2008	2480000.00	80.52	300000.00	9.74	300000.00	9.74	3080000.00	3234000.00	
	2007	2350000.00	67.92	750000.00	21.68	360000.00	10.40	3460000.00	3633000.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	2360000.00	86.67	240000.00	8.81	122880.00	4.51	2722880.00	2859024.00	
	2010	2240000.00	82.55	320000.00	11.79	153600.00	5.66	2713600.00	2849280.00	
Sumon Plastic	2009	2100000.00	78.01	400000.00	14.86	192000.00	7.13	2692000.00	2826600.00	Baby Toy manufacturer
	2008	1960000.00	73.68	460000.00	17.29	240000.00	9.02	2660000.00	2793000.00	
	2007	1870000.00	70.04	500000.00	18.73	300000.00	11.24	2670000.00	2803500.00	

Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	4120000.00	73.05	1260000.00	22.34	260000.00	4.61	5640000.00	5922000.00	
	2010	4050000.00	72.84	1200000.00	21.58	310000.00	5.58	5560000.00	5838000.00	
XL Product	2009	3900000.00	73.86	1000000.00	18.94	380000.00	7.20	5280000.00	5544000.00	Crockery Item manufacturer
	2008	3710000.00	71.90	1030000.00	19.96	420000.00	8.14	5160000.00	5418000.00	
	2007	3400000.00	71.28	1170000.00	24.53	200000.00	4.19	4770000.00	5008500.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	2800000.00	84.59	510000.00	15.41	nil	#VALUE!	3310000.00	3525150.00	
	2010	2870000.00	80.62	590000.00	16.57	100000.00	2.81	3560000.00	3791400.00	
Esha Plastic Product	2009	2680000.00	74.86	700000.00	19.55	200000.00	5.59	3580000.00	3812700.00	Crockery Item manufacturer
	2008	2540000.00	72.88	645000.00	18.51	300000.00	8.61	3485000.00	3711525.00	
	2007	2350000.00	65.64	830000.00	23.18	400000.00	11.17	3580000.00	3812700.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	1680000.00	87.50	140000.00	7.29	100000.00	5.21	1920000.00	2016000.00	
	2010	1600000.00	81.63	210000.00	10.71	150000.00	7.65	1960000.00	2058000.00	
Khaleque Plastic Co.	2009	1620000.00	76.42	300000.00	14.15	200000.00	9.43	2120000.00	2226000.00	Plastic Box, Crockery Item manufacturer
	2008	1560000.00	73.24	320000.00	15.02	250000.00	11.74	2130000.00	2236500.00	
	2007	1400000.00	67.63	370000.00	17.87	300000.00	14.49	2070000.00	2173500.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	3080000.00	89.02	280000.00	8.09	100000.00	2.89	3460000.00	3615700.00	
	2010	2960000.00	86.55	310000.00	9.06	150000.00	4.39	3420000.00	3573900.00	Plastic Mug, Box, Rack &
Bikrompur Plastic	2009	2820000.00	81.50	470000.00	13.58	170000.00	4.91	3460000.00	3615700.00	Crockery Item manufacturer
	2008	2700000.00	79.41	500000.00	14.71	200000.00	5.88	3400000.00	3553000.00	
	2007	2550000.00	76.58	560000.00	16.82	220000.00	6.61	3330000.00	3479850.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	4890000.00	82.74	720000.00	12.18	300000.00	5.08	5910000.00	6264600.00	
	2010	4500000.00	82.27	800000.00	14.63	170000.00	3.11	5470000.00	5798200.00	Home Furniture, Crockery
Bengal Polymer Wares Limited	2009	4370000.00	79.17	870000.00	15.76	280000.00	5.07	5520000.00	5851200.00	Items manufacturer
	2008	4150000.00	74.51	1020000.00	18.31	400000.00	7.18	5570000.00	5904200.00	
	2007	3800000.00	67.74	1260000.00	22.46	550000.00	9.80	5610000.00	5946600.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	2190000.00	83.27	320000.00	12.17	120000.00	4.56	2630000.00	2735200.00	
	2010	2100000.00	78.36	400000.00	14.93	180000.00	6.72	2680000.00	2787200.00	
Khan Bakelite Product	2009	2025000.00	75.42	360000.00	13.41	300000.00	11.17	2685000.00	2792400.00	Switch, Socket, Indicator,
	2008	1970000.00	76.65	400000.00	15.56	200000.00	7.78	2570000.00	2672800.00	Various Holder
	2007	1840000.00	71.32	480000.00	18.60	260000.00	10.08	2580000.00	2683200.00	

Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	1630000.00	89.86	100000.00	5.51	84000.00	4.63	1814000.00	1886560.00	
	2010	1570000.00	85.70	150000.00	8.19	112000.00	6.11	1832000.00	1905280.00	
Pritom Prokash	2009	1480000.00	82.59	170000.00	9.49	142000.00	7.92	1792000.00	1863680.00	Press, Publication
	2008	1500000.00	76.05	300000.00	15.21	172500.00	8.75	1972500.00	2051400.00	
	2007	1460000.00	70.87	370000.00	17.96	230000.00	11.17	2060000.00	2142400.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	3280000.00	73.71	930000.00	20.90	240000.00	5.39	4450000.00	4717000.00	
	2010	3240000.00	69.08	1090000.00	23.24	360000.00	7.68	4690000.00	4971400.00	
Agami Prakashani	2009	3060000.00	66.23	1140000.00	24.68	420000.00	9.09	4620000.00	4897200.00	Press, Publication
	2008	2950000.00	63.44	1200000.00	25.81	500000.00	10.75	4650000.00	4929000.00	
	2007	2760000.00	60.13	1260000.00	27.45	570000.00	12.42	4590000.00	4865400.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	2980000.00	85.14	380000.00	10.86	140000.00	4.00	3500000.00	3710000.00	
	2010	2740000.00	83.03	400000.00	12.12	160000.00	4.85	3300000.00	3498000.00	
Creative International	2009	2660000.00	80.12	440000.00	13.25	220000.00	6.63	3320000.00	3519200.00	Ladies Bags, cosmetics, ornaments
	2008	2450000.00	73.80	620000.00	18.67	250000.00	7.53	3320000.00	3519200.00	
	2007	2360000.00	71.73	560000.00	17.02	370000.00	11.25	3290000.00	3487400.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	7380000.00	89.89	480000.00	5.85	350000.00	4.26	8210000.00	8948900.00	
	2010	7150000.00	91.08	550000.00	7.01	150000.00	1.91	7850000.00	8556500.00	
Aziz Plastic Co. Ltd	2009	6960000.00	90.98	440000.00	5.75	250000.00	3.27	7650000.00	8338500.00	Plastic
	2008	6650000.00	87.27	620000.00	8.14	350000.00	4.59	7620000.00	8305800.00	
	2007	6460000.00	83.14	860000.00	11.07	450000.00	5.79	7770000.00	8469300.00	
Company Name	Year	Total Equity	#VALUE!	Total Loan	#VALUE!	Total Lease	#VALUE!	Total Capital	Total Asset	Products
	2011	5380000.00	85.94	500000.00	7.99	380000.00	6.07	6260000.00	6760800.00	
	2010	5150000.00	84.98	550000.00	9.08	360000.00	5.94	6060000.00	6544800.00	
ABM Dressers	2009	4960000.00	84.64	480000.00	8.19	420000.00	7.17	5860000.00	6328800.00	Cloths, RMG
	2008	4680000.00	81.96	550000.00	9.63	480000.00	8.41	5710000.00	6166800.00	
	2007	4450000.00	77.26	760000.00	13.19	550000.00	9.55	5760000.00	6220800.00	

(Proportions of Lease and Loan in the capital structures of different firms)

Year	2007		2008		2009		2010		2011	
Name of the organizations	Loan	Lease	Loan	Lease	Loan	Lease	Loan	Lease	Loan	Lease
1.Sassy	11.290	12.320	11.450	9.540	16.780	10.070	15.520	7.350	17.190	4.690
2.Rahman Leather Goods	20.540	11.000	16.630	9.370	14.870	8.010	12.180	7.030	8.370	5.980
3.Duce Leather	9.950	8.600	10.910	9.090	13.170	8.400	13.350	8.980	15.120	9.290
4.LeatheReign	15.890	12.080	13.320	12.460	16.160	10.710	12.720	10.970	14.930	10.450
5. 3 Tech	6.290	7.620	4.930	6.400	5.330	4.510	5.430	7.010	6.200	6.980
6.Creative Connection	25.550	13.710	25.990	14.120	23.370	16.850	25.320	15.680	22.320	15.180
7.DWCCI	10.940	6.870	11.530	7.550	11.070	7.500	10.300	8.700	11.410	8.720
8.Jahan Handicrafts	26.160	14.530	21.510	10.750	13.760	8.470	14.420	10.580	15.910	6.360
9. Silver Link International Ltd.	23.780	24.700	23.870	23.870	25.610	21.340	22.290	22.930	21.280	19.150
10. Jumbi	26.580	15.280	25.310	15.100	24.610	15.230	24.350	15.130	24.660	15.410
11.Raynnabi	20.830	12.040	16.200	9.720	24.600	16.160	18.890	17.590	21.900	16.340
12.M/S Rony Poultry Incubator Com.	16.990	10.740	14.770	10.630	15.530	10.190	15.310	10.000	15.200	10.230
13. Kazal Collection	30.150	13.570	21.990	12.570	18.480	17.060	22.070	10.330	28.570	10.200
14.Shamima Boutique	33.900	20.340	34.130	17.960	22.450	22.190	23.080	14.100	18.750	12.500
15. Atashi	27.030	5.410	24.400	4.020	25.160	2.580	25.180	4.080	26.940	3.480
16. Eva Enterprize	21.050	15.790	15.630	14.060	8.770	11.700	3.320	9.300	6.170	7.410
17. New Sumatra	21.740	14.490	14.840	12.460	15.730	10.940	7.060	9.200	6.150	7.690
18. Labanno Boutique	15.000	10.000	10.290	8.640	10.960	7.630	4.710	6.150	3.980	4.970
19. Antique Boutique	21.740	8.700	12.500	10.420	7.630	8.470	16.220	8.110	13.610	6.530
20.Ittadi Handicrafts and Food Products	15.380	7.690	23.880	7.460	19.540	5.750	6.450	3.230	7.120	4.450
21. Nini's Collection	17.760	12.620	18.220	11.160	16.470	9.280	18.300	9.800	16.880	7.590

Year	2007		2008		2009		2010		2011	
Name of the organizations	Loan	Lease	Loan	Lease	Loan	Lease	Loan	Lease	Loan	Lease
22. Ruby Shilpa Kutir	22.220	5.560	17.130	4.980	17.050	2.270	18.620	1.600	11.240	0.000
23. Yaduns Enterprise	28.090	8.990	25.000	8.040	25.770	7.050	23.540	5.020	21.720	4.770
24. Mollikas Boutique and Handicrafts	20.040	7.630	16.370	6.190	13.270	7.110	13.820	6.180	12.100	5.300
25. Aesthetica	22.000	4.670	21.250	6.250	18.380	6.650	16.620	6.650	17.110	6.340
26. Meena Boutiques	16.480	6.590	20.050	5.420	18.480	4.160	14.870	2.750	11.210	5.830
27. Saat Rang Handicraft and Fashion	17.430	9.170	15.870	9.700	16.440	8.120	16.280	7.020	13.160	6.020
28. Shucharu	12.200	14.630	13.390	12.110	14.980	10.140	15.200	8.820	15.870	7.410
29. Eminent Fashion Cottage and Handicraft	14.580	12.500	10.530	11.580	6.220	10.440	2.650	11.060	2.310	9.720
30. Ashmikas	13.890	8.330	8.130	6.500	14.890	4.260	10.050	7.350	8.330	5.950
31. Sejuti's Dream	21.430	9.520	21.510	10.750	17.530	12.370	17.960	11.420	16.800	10.580
32. Akansha	18.790	10.910	17.140	9.050	14.050	7.490	12.040	9.260	13.280	10.280
33. Matuail Block and Jamdani House	20.940	10.990	17.390	14.490	16.780	11.630	13.430	10.190	11.550	8.780
34. Easmin Boutique and Jamdani House	17.800	11.000	13.680	9.120	12.820	7.050	12.420	5.370	10.000	3.330
35. Rubina Angel Beauty Parlor and Boutique	27.930	9.010	22.490	12.110	20.870	9.570	20.480	6.830	14.760	4.390
36. SP Academy	13.060	5.970	14.390	4.320	11.230	3.510	10.490	2.100	7.720	0.670
37. Thai Poly Shawn (BD) Ltd.	21.370	13.680	16.750	16.750	15.470	12.760	12.900	9.680	11.970	6.230
38. Hafez Plastic Toy	21.680	10.400	9.740	9.740	5.390	8.080	0.930	6.130	0.000	3.360
39. Sumon Plastic	18.730	11.240	17.290	9.020	14.860	7.130	11.790	5.660	8.810	4.510
40. XL Product	24.530	4.190	19.960	8.140	18.940	7.200	21.580	5.580	22.340	4.610
41. Esha Plastic Product	23.180	11.170	18.510	8.610	19.550	5.590	16.570	2.810	15.410	0.000
42. Khaleque Plastic Company	17.870	14.490	15.020	11.740	14.150	9.430	10.710	7.650	7.290	5.210

Year	2007		2008		2009		2010		2011	
Name of the organizations	Loan	Lease	Loan	Lease	Loan	Lease	Loan	Lease	Loan	Lease
43. Bikrompur Plastic	16.820	6.110	14.710	5.880	13.580	4.910	9.060	4.390	8.090	2.890
44. Bengal Polymer Wares Ltd.	22.460	9.800	18.310	7.180	15.760	5.070	14.630	3.110	12.180	5.080
45. Khan Bakelite Product	18.600	10.080	15.560	7.780	13.410	11.170	14.930	6.720	12.170	4.560
46. Pritom Prokash	17.960	11.170	15.210	8.750	9.490	7.920	8.190	6.110	5.510	4.630
47. Agami Prokashani	27.450	12.420	25.810	10.750	24.680	9.090	23.240	7.680	20.900	5.390
48. Creative International	17.020	11.250	18.670	7.530	13.250	6.630	12.120	4.850	10.860	4.000
49. Aziz Plastic Com. Ltd.	11.070	5.790	8.140	4.590	5.750	3.270	7.010	1.910	5.850	4.260
50. ABM Dressers	13.190	9.550	9.630	8.410	8.190	7.170	9.080	5.940	7.990	6.070
Sum	977.350	534.910	849.930	492.830	781.280	450.280	707.680	396.090	659.190	343.770
Average	19.547	10.698	16.999	9.857	15.626	9.006	14.154	7.922	13.184	6.875
			loan	79.509	lease	44.358				
			avg	15.902	avg	8.872				

Z-value -2.386

Here, the Z-value is 2.386 which is more than the critical value of 1.96. Based on z- value, we have seen that the proportion of loan and lease of different 50 organizations have significant difference at five percent level of significance. Depending on the Z-value it can be said that the lease financing is not the substitute of term loan at present in Bangladesh. It can also be observed that the use of both loan and lease of those 50 firm's capital structure have decreased over time and the use of equity have increased over time. Higher interest rate, restriction on equipment use, loss of residual value, new tax treatment of lease have decreased the use of lease financing of those firms.

CHAPTER-8

PREFERANCE OF LEASE FINANCING OVER TERM LOAN IN BANGLADESH

Reasons for the preference of lease financing

Acquisition of long-term assets requires huge cash outlay which is sometimes not possible for the user because of lack of financial capability. In such a situation, the user can lease such capital assets. Leasing serves as a long-term funding that could be used for the attainment of capital assets. A leasing arrangement provides a firm with the use and control over the assets without incurring huge capital investment. It requires only making periodical rental payment. It has been found that acquirement of assets under leasing arrangement is cheaper and faster as compared to acquisition of assets through other sources of financing. Leasing provision enables the lessee to use more of its own funds for working capital purposes instead of using low yielding fixed assets. Acquirement of assets through a leasing arrangement is particularly beneficial for small firms which cannot raise funds to acquire assets because of lack of financial resources. The financial institution while lending money usually attach several restrictions on the borrowers as regards management, debt-equity ratio dividend declaration etc. These restrictions are not present in the case of lease financing. In recent times, leasing for business needs such as business equipments has become gradually more popular at many banks as more and more customers discover its advantages. It is easy to predict and budget for lease payments because of equal monthly payment. An important reason for the appeal of leasing is its flexibility. Business organizations can use leases for everything from equipment, to structures, to vehicles. It is possible to match the lease terms to the use earning life of the equipment or facility and to choose the type of payment plans that match the unique needs, ranging from monthly to annually.

60 high officials interview from 15 banks and 15 leasing companies have been taken to identify the reasons of preference of lease financing over term loan by some of the borrowers in Bangladesh. The reasons for the preference of lease financing are as follows:

1. Provision of collateral
2. The time of lease repayment
3. E.M.I (Equal Monthly Installment) for lease
4. Longer grace period for lease
5. No secondary security for lease
6. No third party guarantee for lease
7. Lack of funds to choose lease financing
8. Faster service for lease financing
9. Less procedural complexity for lease financing
10. Fewer documentation and submission of documents in one package.
11. Avoidance of many restrictive covenants
12. Lease financing for low cost assets
13. Sale and leaseback arrangements
14. Total financing for lease

Provision of collateral:

Collateral is not needed in case of lease financing. When term loan is acquired from banks or non-bank financial institutions, generally assets as collateral is required as a security of the lending institution. Provision of collateral is a determinant factor to select lease financing for some of the borrowers in Bangladesh.

The time of repayment:

Sometimes the time of loan repayment in lease financing is shorter than term loan. Generally the maximum repayment time of equipment lease is five years. In case of term loan for equipment purchase, the time for loan repayment might be more than that. Shorter time of loan repayment is also a determinant factor for the selection of lease over term loan from banks or NBFIs. It offers the flexibility of the repayment period being matched to the useful life of the equipment.

E.M.I (Equal Monthly Installment) for lease:

The repayment pattern of lease financing is generally E.M.I (Equal Monthly Installment). Financial planning for E.M.I is easier because of fixed amount payment. It is also easy to assess the future cash flow of the firm for E.M.I. In case of loan repayment, the payment pattern is not generally E.M.I. Some of the borrowers prefer lease financing over term loan for E.M.I in Bangladesh. The smaller, regular payments required by a lease agreement facilitate businesses with limited capital to handle their cash flow more effectively and adapt quickly to changing economic conditions. As a lease agreement is almost always a fixed contract, it is relatively easy to make budget and forecast it. Business budget can be maintained with these fixed amount much more easily than an irregularly occurring lump sum; allowing to keep a much better control over current and future cash flow.

Longer grace period for lease:

Sometimes the grace period of lease is longer than term loan. Sometimes the rental payment of lease is tagged to the cash inflows from the underlying lease assets. Usually it takes some time for the lessee to generate cash flows and hence the lessee is allowed a grace period for starting the rental payments.

No secondary security for lease:

In case of lease financing of a product, it is owned by the leasing company. The company has better security on the finance of the lessee. It means that it is unlikely to need any further security for lease financing.

No third party guarantee for lease:

In case of lease financing, no third party guarantee is required. If the lease financing is to acquire equipment, in that case the possession of the equipment remains to the leasing company up to the completion of the lease rental payment.

Lack of funds to choose lease financing:

Acquisition of assets through a leasing arrangement is particularly beneficial to small firms which cannot afford to raise their capacity on account of scarcity of financial resources. The biggest advantage of leasing equipment is that the cost is spread over a number of years. It is not needed to pay the entire amount for the acquisition of the equipment. This can significantly help to maintain cash flow which is critical to all businesses. Poor cash flow is the main cause of small business failures, and leasing can help to keep it under better control.

Faster service for lease financing:

It has generally been found that acquisition of assets under leasing arrangement is cheaper and faster as compared to acquisition of assets through other sources of financing. For lease financing, additional security like property mortgage, land security is not required. So, leasing process and documentation is generally faster than term loan.

Less procedural complexity for lease financing:

Lessors have more equipment related knowledge and expertise. They have also equipment procurement related expertise. The lessors have direct relation with the local sellers or agents of the equipment. As a result, the procedural complexity of lease is less.

Fewer documentation and submission of documents in one package:

Generally there are few terms and conditions for lease financing. For that reason, less documentation is needed for lease financing and the submission of documents is in one package. Usually, ownership agreement, lease contract agreement etc. are needed in lease financing.

Avoidance of many restrictive covenants:

The financial institutions while lending money usually attach several restrictions on the borrowers as regards management, debt-equity norms, declaration of dividends etc. Such restrictions are absent in the case of lease financing.

Lease financing for low cost assets:

Usually, term loans for corporate entities are for huge amount deals. For small equipment purchase, lease is more preferred and convenient. For that reason, small firms which need small equipment are generally preferring lease financing.

Sale and leaseback arrangements:

In lease financing, there is option for sale and leaseback arrangements. An asset can be sold and again leased back. In this way, an organization can meet up the cash flow problem. When an asset is sold, the cash inflow can be used to other purposes for an organization.

Total financing for lease:

Leasing provides total financing of an asset or equipment. In case of traditional lending, a substantial down payment is required. Leasing arrangements provides a firm with the use and

control over the assets without incurring huge capital expenditure and require making only periodical rental payments. Down payment is not required in case of lease financing. Thus, leasing saves funds for alternative uses.

The totals of 405 firms' responses have been taken to detect the correlated factors and variables in factor analysis. These firms were given a questionnaire consisting of 14 questions. They were asked to rank these questions. From their ranking, factor analysis has been used to find out factors related with the preference of lease financing over term loan and their correlated variables. Out of 405 firms, 300 firms have taken lease financing from the leasing companies and 105 firms have taken lease financing from banks. Overall factor analysis, factor analysis for those firms which have taken lease financing from the leasing companies and factor analysis for those firms which have taken lease financing from banks are used in the study.

Factor analysis is a multivariate statistical technique that addresses itself to the study of interrelationship among a total set of observed variables. The technique allows looking at groups of variables that tend to be correlated to one another. While in multiple regression model, one variable is explicitly as dependent variable and all the other variables as predictors; in factor analysis all the variables are considered as dependent variables simultaneously. In a sense, each of the observed variables is considered as a dependent variable that is a function of some underlying, latent and hypothetical set of factors. Conversely, one can look at each factor as dependent variable that is a function of the observed variables. Several methods are available in literature to estimate factor loadings and factor scores. The study considers principal component method to estimate the factor loadings. Rotations method like 'Varimax' is adopted to find better estimates of factor loadings.

Overall Factor Analysis

Causes for the preference of lease financing over term loan	Factor					
	1	2	3	4	5	6
provision of collateral						.807
The time of lease repayment						-.637
E.M.I (Equal Monthly Installment) for lease			.500			
Longer grace period for lease			.717			
No secondary security for lease			.611			
No third party guarantee is required for leasing.					.889	
Lack of funds to choose lease financing		.626				
Faster Service for Lease Financing		.510				
Less procedural complexity for lease financing	.775					
Fewer documentation and submission of documents in one package.	.759					
Avoidance of many restrictive covenants	.647					
Lease financing for low cost assets		.668				
Sale and lease back arrangements				.820		
Total Financing for Leasing				.568		
Eigenvalue	1.98	1.51	1.40	1.21	1.18	1.15
Percentage of Variation	14.10	10.79	10.03	8.63	8.39	8.24
Cumulative percentage	14.10	24.89	34.92	43.56	51.95	60.19
has been shown in the Table 0.40 ≤Only Factor loadings& 0.618=KMO						

The above factors can be named as first factor, second factor, third factor, fourth factor, fifth factor and sixth factor. The result suggests that these factors are mainly responsible for the preference of lease financing over term loan. Under first factor the correlated variables are less procedural complexity for lease financing, fewer documentation and submission of documents in one package and avoidance of many restrictive covenants. The percentage of variation is 14.10. It means these three variables explain 14.10% of total influencing variable. Under second factor- lack of funds to choose lease financing, faster service for lease financing and lease financing for low cost assets are correlated variables. The percentage of variation is 10.79. Third factor is

correlated with these variables- E.M.I for lease, longer grace period for lease and no secondary security for lease. The percentage of variation for third factor is 10.03. Under fourth factor the correlated variables are- sale and leaseback arrangements and total financing for leasing. Percentage of variation is 8.63. The variable-no third party guarantee is required for leasing is correlated with fifth factor. The percentage of variation is 8.39. Provision of collateral and the time of lease repayment- are correlated variables with sixth factor. The percentage of variation is 8.24.

Factor Analysis for Banks

	Factor				
	1	2	3	4	5
Causes for the preference of lease financing over term loan					
provision of collateral				.840	
The time of lease repayment				-.601	
E.M.I (Equal Monthly Installment) for lease	.726				
Longer grace period for lease	.667				
No secondary security for lease	.556				
No third party guarantee is required for leasing					.901
Lack of funds to choose lease financing			.596		
Faster Service for Lease Financing			.439		
Less procedural complexity for lease financing		.466			
Fewer documentation and submission of documents in one package		.583			
Avoidance of many restrictive covenants		.665			
Lease financing for low cost assets			.765		
Sale and lease back arrangements		-.710			
Total Financing for Leasing					.453
Eigenvalue	1.92	1.88	1.63	1.48	1.30
Percentage of Variation	13.74	13.46	11.65	10.57	9.30
Cumulative percentage	13.74	27.20	38.85	49.43	58.74
has been shown in the Table 0.40≤ Only factor loading & 0.575=KMO.)Bank(

The above factors can be named as first factor, second factor, third factor, fourth factor and fifth factor. The result suggests that these factors are mainly responsible for the preference of lease

financing over term loan. This is the factor analysis of those firms which have taken lease financing from the banks.

Under first factor, the correlated variables are E.M.I for lease, longer grace period for lease and no secondary security for lease. The percentage of variation is 13.74. It means these three variables explain 13.74% of total influencing variable. Under second factor-less procedural complexity for lease financing, fewer documentation and submission of documents in one package, avoidance of many restrictive covenants and sale and lease back arrangements are correlated variables. The percentage of variation is 13.46. Third factor is correlated with these variables- lack of funds to choose lease financing, faster service for lease financing and lease financing for low cost assets. The percentage of variation for third factor is 11.65. Under fourth factor the correlated variables are- provision for collateral and the time of lease repayment. Percentage of variation is 10.57. The variables-no third party guarantee is required for leasing and total financing for leasing are correlated with fifth factor. The percentage of variation is 9.30.

Factor Analysis of Leasing Companies

	Factor					
	1	2	3	4	5	6
Causes for the preference of lease financing over term loan						
provision of collateral			.755			
The time of lease repayment		.650				
E.M.I (Equal Monthly Installment) for lease		.548				
Longer grace period for lease					.562	
No secondary security for lease					.816	
No third party guarantee is required for leasing						.881
Lack of funds to choose lease financing		.500				
Faster Service for Lease Financing	.451					
Less procedural complexity for lease financing	.821					
Fewer documentation and submission of documents in one package	.763					
Avoidance of many restrictive covenants	.649					
Lease financing for low cost assets			.431			
Sale and lease back arrangements				.824		
Total Financing for Leasing				.444		

Eigenvalue	2.13	1.36	1.35	1.28	1.24	1.19
Percentage of Variation	15.25	9.73	9.67	9.18	8.89	8.55
Cumulative percentage	15.25	24.98	34.66	43.84	52.74	61.29
has been shown in the Table 0.40≤ Only factor loading& 0.585=KMO.) Lease(

The above factors can be named as first factor, second factor, third factor, fourth factor, fifth factor and sixth factor. The result suggests that these factors are mainly responsible for the preference of lease financing over term loan. This is the factor analysis of those firms which have taken lease financing from the leasing companies. Under first factor, the correlated variables are faster service for lease financing, less procedural complexity for lease financing, fewer documentation and submission of documents in one package and avoidance of many restrictive covenants. The percentage of variation is 15.25. It means these four variables explain 15.25% of total influencing variables. Under second factor-the time of lease repayment, E.M.I for lease, lack of funds to choose lease financing are correlated variables. The percentage of variation is 9.73. Third factor is correlated with these variables-provisions of collateral and lease financing for low cost assets. The percentage of variation for third factor is 9.67. Under fourth factor the correlated variables are- sale and lease back arrangements and total financing for leasing. Percentage of variation is 9.18. The variables-longer grace period for lease and no secondary security for lease are correlated with fifth factor. The percentage of variation is 8.89. No third party guarantee is required for leasing- is correlated variable with sixth factor. The percentage of variation is 8.55.

CHAPTER-9

OPERATING LEASE IN BANGLADESH

Operating Lease

Operating lease is an agreement that allows using of an asset, but does not express rights of ownership of the asset. An operating lease is an off balance sheet item and it is not needed to show in the balance sheet of the lessee firm. The lessee has to pay the lease rental. The lease rental is shown in the income statement of the lessee and the lessee receives tax benefit on lease rental because the total lease rental is considered as an expense in the income statement. The ownership right remains to the lessor and the lessor charges depreciation for the asset. Operating leases have tax incentives and do not consider as assets or liabilities and need not to be recorded on the balance sheet of the lessee. In case of operating lease, the lessor (or owner) transfers the right to utilize the assets to the lessee. After the completion of the lease period, the lessee returns the assets to the lessor. Since the lessee does not take the ownership possession, the operating lease is considered as an operating expense to the lessee. In case of financial lease, the asset is shown in the asset side of the balance sheet and the liability of lease payment is shown in the liability side of the balance sheet of the lessee. The firm can charge the depreciation each year on the asset and can deduct the interest expense from the income statement each year.

60 high official's interviews of different banks and leasing companies have been taken to identify reasons behind the absence of operating lease in Bangladesh and the future prospects of operating lease in Bangladesh.

Causes for the absence of operating lease in Bangladesh

The operating lease is not much popular in Bangladesh. The culture of using operating lease has not developed yet in Bangladesh. People generally own the lease asset after the completion of lease period.

The causes for the absence of operating lease in Bangladesh are as follows:

- Culture of using operating lease has not been developed yet in Bangladesh
- Low risk of obsolescence of the leased equipments or machines
- Low option of release because of lack of manufacturer
- Lack of workshop/service centre for after lease service of leased asset
- Lack of skilled operators for operating lease
- Lack of proper rules and regulations from the government to repossess the operating lease, etc.

In case of operating lease, the ownership remains to the lessor after the completion of the operating lease period. Lessee is not interested to use the operating lease. The tradition of using generator as operating lease is growing day by day in the context of Bangladesh. Because of low technological development, the risk of becoming obsolescence of machines or equipment is low in the country. People can easily use and handle financial lease for a long period of time in Bangladesh because of low technological changes. As a result, the demand of operating lease is less in Bangladesh. Also the option of release is low because of lack of manufacturer in the country. The manufacturer can use an asset again after a certain period of time. Low release option is an important reason for the lack of utilization of operating lease in Bangladesh. Operating lease should be handled by the professional lessors who know how to use the asset. The lessor could be specialized in the use and maintenance of a certain asset. Workshop/service centre is needed for the after lease service of leased asset. Operators are needed in the workshops and proper maintenance is required for the leased asset. If the maintenance is low, it could reduce the profit of the lessors. Pools of assets, skilled operators and service centers/ workshops are needed for operating lease. It is not possible for NBFIs or banks to employ operators. So, in

Bangladesh there is lack of proper set up which is necessary for operating lease. Legal frame work is weak for operating lease in Bangladesh. In case of default, the lessor needs to repossess the leased asset. Because of lack of proper rules and regulations from the government, it is difficult to repossess the operating leased asset in the context of Bangladesh. Lessee gets the tax benefit in case of using operating lease because it is considered as off balance sheet item for lessee. The total rental payment of operating lease is shown as an expense in the income statement. So the lessee gets the tax benefit in case of operating lease. The total rental payment is exempted from tax payment. The knowledge of the lessee about the tax benefit related with operating lease is low in Bangladesh. The rental charge for operating lease is also high in Bangladesh.

Future prospects of operating lease in Bangladesh

Operating lease is growing its popularity in Bangladesh gradually. Infrastructural development is going on in the country day by day. Padma bridge, different types of fly-over, roads and highways etc. are going to be started or have been started already. The projected period to establish these might be two to three years or even more. Power backup, truck, escalator etc. are needed for the expansion of the infrastructure. Those organizations which are involved in the infrastructural development process like operating leased asset for shorter period. For that reason, there is a chance for the development of operating lease in Bangladesh.

The economy of Bangladesh is expanding progressively. National output production, income level and employment level are closely related with economic development. Financial market is improving and banks and non-bank financial institutions are expanding its operation. For these consequences, operating lease has a prospective future in Bangladesh.

Big multinational organizations generally don't want to own assets to avoid the administrative and maintenance hassles. They generally want to rent the required asset. So, there is a possibility of the development of operating lease in Bangladesh. It is expected that the demand of operating lease will increase because of its flexible time period which is appropriate for small projects. Operating lease can remove the cash flow problems of different firms because no down payment is required here. In case of term financing, borrowing capacity, cash flow, asset sizes etc. of the organization are required to verify by the lending institution. Security is also needed by the lending institution. But in case of operating lease these requirements are not necessary. New industry can take operating lease easily and there is no need to verify the debt-equity ratio of the lessee. Operating lease is flexible, easy to cancel and it can minimize the short term crisis of lessee. If an organization purchases new machine or equipment, the organization needs to use it for a long time. So, there is a risk to be obsolete of the machine or equipment. In case of operating lease, the lessee can utilize the asset for a short period of time and hence can reduce the risk of obsolescence. Many financial institutions and banks are encouraged to offer operating lease. The traditional products of banks and NBFIs have high competition. The operating lease could be an innovative product for banks and NBFIs and it can be an alternative source of revenue earnings for banks and NBFIs. SMEs of Bangladesh have limited financial capability and it is difficult for them to accumulate funds from banking institution. Operating lease could be a good option for SMEs. So, it is expected that the demand of operating lease will be increased in Bangladesh.

CHAPTER-10

**SUMMARY, RECOMMENDATIONS
AND CONCLUSION**

Banks are providing term loan and lease financing as well. For that reason the competition exists between banks and leasing companies. Banks can provide short term loan but leasing companies are prohibited to provide short term loan. It has been found that both banks and leasing companies have increased their marketing expenses. Marketing expense has increased the demand for the products of both banks and leasing companies. Leasing companies can provide faster service for financial solution than banks. Technological advancement has increased the competition between banks and leasing companies. Transaction cost has been minimized by both banks and leasing companies. Flexibility of terms and conditions of loan and lease has increased the competition between banks and leasing companies. Both banks and leasing companies are trying to innovate new products and services. Easy lease processing and tax benefit for lease have enhanced the demand for lease financing.

We can measure the competition of banking sector as well as leasing sector by using Herfindhal-Hirschman Index (H.H.I). H.H.I can be found by squaring the market share of each firm competing in the market, and then summing the resulting number. High concentration means less competition. We have found the H.H.I of 18 banks and 18 leasing companies for the year of 2011, 2010 and 2009. It has been found that the H.H.I of banks for the year of 2011, 2010 and 2009 is 0.072464, 0.070681 and 0.072418. It has also been found that the H.H.I for 18 leasing companies for the year of 2011, 2010 and 2009 is 0.12123, 0.09181 and 0.08766 respectively. So we have observed that banks have more competition among themselves than leasing companies in Bangladesh.

Leasing companies have low paid up capital compare to banks. Leasing companies cannot expand their business as like as banks because of low paid up capital. Banks can collect short term deposits but the leasing companies cannot collect short term deposits. As a result, the cost

of capital of banks is low as compared to leasing companies. Leasing companies have less qualified personnel than banks. High cost of fund is the most challenging issue for leasing companies in Bangladesh. Leased asset recovery problem is another challenging issue for leasing companies. There is a risk of capital losses due to obsolescence of the equipments or machines. Leasing companies have to pay high interest for the commercial loan to banks. Due to manpower shortage, the leasing companies in Bangladesh are facing challenges.

Weighted Average Cost of Capital (WACC) of 15 banks and 15 leasing companies for the year of 2011, 2010 and 2009 has been estimated. It has been found that for the banks the WACC of the year of 2011, 2010 and 2009 is 8.9982, 7.9514573 and 8.49397 respectively. It has also been found that the WACC of leasing companies for the year of 2011, 2010 and 2009 is 12.59, 10.74 and 11.50 respectively. It has been observed that the WACC of leasing companies are higher than the WACC of banks in Bangladesh. Banks can collect demand deposits but leasing companies cannot collect demand deposits. As a result the WACC of banks is lower than WACC of leasing companies.

Banks can utilize the low cost of fund by investing more in profitable sectors. Different profitable sectors should be identified and invested by the banks as their cost of fund is low compared to leasing companies. Banks should try to motivate their employees. The transaction cost of banks could be minimized to utilize the low cost of funds and to increase profit. Banks can diversify the leasing products.

Banks can also reduce the service charge than leasing companies to compete the leasing business of leasing companies. The lease procedures and processing should be fast by the banks. Though the cost of funds of leasing companies is higher than banks but they are trying to

compete with banks. Leasing companies are trying to increase their products and services. The leasing companies are now recruiting efficient and expert marketing personnel.

Leasing companies have fewer formalities than banks and they encourage new entrepreneurs. Leasing companies can provide variety of options for leasing that banks cannot match like seasonal payment, venture lease etc. Flexible terms and conditions of leasing companies make borrowers to prefer leasing from leasing companies than from banks. Leasing companies have more leasing options than banks. It is comparatively easy to get lease for new customers from leasing companies than banks.

The leasing companies should try to accumulate funds with low cost. The leasing companies should try to accumulate capital from the capital markets. The government should improve proper guidelines and instructions for leasing companies to improve the leasing business in Bangladesh. The leasing companies should try to reduce the difficulties of fund raising through borrowing. Banks need to minimize the transaction cost of leasing business. The application and procedure of lease financing of banks should be simple and easy.

The leasing companies should provide simple and easy procedure of lease for customers. More flexible terms and conditions are required from leasing companies. Leasing companies should reduce the service charges and advertisement expenses should be increased by them. Leasing companies should provide better customer services and recruit qualified personnel.

Data Envelopment Analysis (D.E.A) has been used to measure the technical efficiencies, allocative efficiencies and as well as cost efficiencies of 17 leasing companies for the period of 2006 to 2011 in Bangladesh. Data Envelopment Analysis is a non-parametric approach to

measure efficiencies of comparative decision making units (DMUs). This approach is used for empirical estimation productive efficiency of firms without assuming any particular functional form for the frontier. Utilizing the selected variables, such as input variables and output variables, DEA software searches for the points with lowest unit cost for a given output. Then the software connects those points to form the efficiency frontier. Any company not on the frontier is considered as inefficient. A numerical coefficient is given to each firm, defining its relative efficiency. There are two assumptions for technical efficiency – one is variable return to scale and the other is constant return to scale. A technically efficient organization might not be allocatively efficient. Allocative efficiency is determined by the input price ratios. So cost efficiency is the product of technical efficiency and allocative efficiency. In this research, the technical efficiency, allocative efficiency and cost efficiency have been measured for the 17 leasing companies from the year of 2006 to 2011 assuming variable return to scale and constant return to scale. Optimum level of inputs for efficient production assuming both variable return to scale and constant return to scale have been identified in this research study. Technical Efficiencies and its decompositions have been identified for the period of 2006 to 2011. Output slacks and input slacks have also been identified in the study. Output slacks are created when the hypothetical firm on the efficient frontier belongs in a position that the firm can increase its output by the slack quantity without increasing inputs. Input slacks can also be explained as the output slacks. The firms are compared to a hypothetical firm that belongs on the efficient frontier. When a hypothetical firm belongs in a position on the production frontier that the firm yet can reduce the inputs without reducing outputs, the slack is created.

In 2006 (Under the assumption of VRS), Fidelity was the highest efficient firm and the score is 1 and IPDC is second with score .952 and Islamic Finance was third with score .942. In 2007,

Uttara Finance, Fidelity (FAS) and Islamic Finance were first, second and third with score .964, .831 and .713 respectively. In 2008, Uttara Finance, Premier Leasing and Fidelity were first, second and third with score 1, .622 and .591. In 2009, IDLC, Fidelity and Premier Leasing were first, second and third position with score 0.784, .734 and .697. In 2010, Both Prime Finance and Premier Leasing were in first position with score 1 and IDLC was in second position with score .952 and Fidelity (FAS) was in third position scoring 0.567. In 2011, Phoenix Finance and IDLC were both in first position with score 1 and Uttara Finance was in second position with score .961 and peoples Leasing was in third position scoring 0.657. In 2006 (Under the assumption of VRS), IDLC, Uttara Fiance and Phoenix were the least three efficient firms with score 0.215, 0.25 and 0.271 respectively. In 2007 LankaBangla, Bay Leasing and Phoenix were the least three efficient firms with score 0.207, 0.209 and 0.245 respectively. In 2008, LankaBangla, Bay Leasing and Phoenix were the least three efficient firms with score 0.197, 0.232 and 0.244 respectively. In 2009 LankaBangla, Bay Leasing and Midas Fin were the least three efficient firms with score 0.216, 0.222 and 0.249 respectively. In 2010 LankaBangla, Midas Fin. and BIFC were the least three efficient firms with score 0.208, 0.278 and 0.291 respectively. In 2011 Midas Finance, BFIC and United Leasing were the least three efficient firm with score 0.194, 0.229 and 0.261 respectively.

In 2006 (Under the assumption of CRS), IPDC, Islamic Fin. and BIFC were the most three efficient firms with score 0.895, 0.691 and 0.468 respectively. In 2007, Uttara Finance, Islamic Fin. and IPDC were the most three efficient firms with score 0.958, 0.549 and 0.533 respectively. In 2008, Uttara Finance, Premier Leasing and Prime Finance were the most three efficient firms with score 1, 0.591 and 0.427 respectively. In 2009, Premier Leasing, Fidelity and Islamic Fin were the most three efficient firms with score 0.667, 0.478 and 0.302 respectively. In

2010, Premier Leasing, Prime Finance and Union Capital were the most three efficient firms with score 1, 0.597 and 0.467 respectively. In 2011, Phoenix, Fidelity and Uttara Finance were the most three efficient firms with score 0.877, 0.518 and 0.373 respectively. In 2006 (Under the assumption of CRS), IDLC, Midas Fin and Uttara Finance were the least three efficient firms with score 0.21, 0.211 and 0.231 respectively. In 2007, Bay Leasing, LankaBangla and IDLC were the least three efficient firms with score 0.15, 0.171 and 0.225 respectively. In 2008, LankaBangla, Bay Leasing and Phoenix were the least three efficient firms with score 0.176, 0.191 and 0.234 respectively. In 2009, Midas Finance, Bay Leasing and LankaBangla were the least three efficient firms with score 0.123, 0.191 and 0.204 respectively. In 2010, LankaBangla, Midas Fin. and Uttara Fiance were the least three efficient firms with score 0.195, 0.217 and 0.26 respectively. In 2011, Midas Finance, BFIC and Bay Leasing were the least three efficient firms with score 0.149, 0.19 and 0.237 respectively.

Lease financing has some advantages that some of the borrowers prefer lease financing than term loan in Bangladesh. Leasing companies face some problems to conduct their business in Bangladesh. The comparatively slow increase of the demand side compared to the fast expansion of the lease business is one such problem. Leasing companies often find it difficult to raise fund from money and capital markets. Though lease financing has some advantages, it has some disadvantages also. Provision of collateral, no third party guarantee for lease, faster service, less documentation etc. are the advantages for lease financing. Higher interest rate, restriction on equipment use, loss of residual value etc. are the disadvantages for lease financing. 50 firms capital structure for 5 years that have taken lease financing from banks or leasing companies have been collected. From the capital structure of these firms, proportion of loan and proportion of lease have been analyzed. Proportion test has been used to find out whether there is any

significant difference between the proportion of loan and proportion of lease of 50 firms for 5 years or not. It has been found that the Z value for the proportion of loan and proportion of lease is 2.386 which is more than the critical value of 1.96. Based on Z value, it has been observed that the proportion of loan and lease of 50 firms have significant difference at 5 percent level of significance. Depending on Z value, it can be said that the lease financing is not the substitution of term loan at present in Bangladesh.

Different high official's interviews from banks and leasing companies have been taken to detect the reasons of preference of lease financing over term loan by some of the borrowers in Bangladesh. Provision of collateral, the time of lease repayment, E.M.I (Equal Monthly Installment) for lease, longer grace period for lease, no secondary security for lease, no third party guarantee for lease, lack of funds to choose lease financing, faster service for lease financing, less procedural complexity for lease financing, fewer documentation and submission of documents in one package, avoidance of many restrictive covenants, lease financing for low cost assets, sale and leaseback arrangements and total financing for lease are the reasons for the preference of lease financing over term loan by some of the borrowers in Bangladesh.

Factor analysis has been used to detect different factors and their correlated variables. From the overall factor analysis (Borrowers who take lease from banks as well as leasing companies), it has been revealed that under first factor the correlated variables are less procedural complexity for lease financing, fewer documentation and submission of documents in one package and avoidance of many restrictive covenants. The percentage of variation is 14.10. It means that these three variables explain 14.10 percent of total influencing variables.

From the factor analysis of banks (those firms which have taken lease from banks), it has been found that under first factor, the correlated variables are E.M.I for lease, longer grace period for lease and no secondary security for lease. The percentage of variation is 13.74. It means that these three variables explain 13.74% of total influencing variable.

From the factor analysis of leasing companies (borrowers who take lease from leasing companies), it has been found that under first factor, the correlated variables are faster service for lease financing, less procedural complexity for lease financing, fewer documentation and submission of documents in one package and avoidance of many restrictive covenants. The percentage of variation is 15.25. It means that these four variables explain 15.25% of total influencing variables.

The operating lease is not much popular in Bangladesh. The culture of using operating lease has not been developed yet in Bangladesh. The risk of becoming obsolete of the equipment or machine is low in Bangladesh because of low technological development. People can easily handle and use financial lease for a long period of time. Operating lease should be handled by the professional persons. Workshop/service centre is needed for the after sale service of leased assets. Operators are needed in the workshop also. Proper maintenance is needed for the leased asset. Pools of assets, skilled operators and service centers are required for operating lease. Legal framework is weak for operating lease in Bangladesh. Operating lease is growing its popularity gradually in Bangladesh. Infrastructural development is going on in the country. Power backup, truck, escalator etc. are needed for the expansion of infrastructure. Those organizations which are involved in the infrastructural development process like operating lease asset for shorter time period. For that reason, there is the chance for the development of operating lease in Bangladesh. The economy of Bangladesh is enlarging rapidly and for that

consequence operating lease has a prospective future in Bangladesh. Operating lease can remove the cash flow problems of different firms because no down payment is needed here. New industry can take operating lease easily. Operating lease is flexible, easy to cancel and it can minimize the short term crisis of lease. Operating lease could be an innovative product for banks and NBFIs and it can be an alternative source of revenue earnings for banks and NBFIs. Operating lease could be a good option for SMEs. It is expected that the demand of operating lease will be expanded in Bangladesh in future.

CHAPTER-11

FUTURE SCOPE OF RESEARCH

The research may be carried on covering the following aspects:

- 1) Whether it is necessary for the growth of leasing industry to allow only the leasing companies to get involved into the leasing business.
- 2) The benefits of consolidation of the leasing industry for the sustainable growth of leasing industry in Bangladesh.
- 3) The ways to launch a operating lease business in Bangladesh.
- 4) The importance of efficient balance sheet management of leasing companies in Bangladesh.
- 5) The Improvement of legal framework and support to protect the interest of the lessors.

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APPENDIXES

PROFILE OF THE LEASING COMPANIES IN BANGLADESH

There are 31 Non Bank Financial Institutions in Bangladesh and out of which 26 are involved in leasing business. Like banks, NBFIs are also playing roles in channeling the funds in productive investment. Both banks and NBFIs are influencing to stimulate the production and output in the country. They are also increasing the employment level of Bangladesh. It is sometimes difficult to collect loan from the banks. NBFIs are trying to finance in different sectors. Leasing companies are providing lease financing to the SME sector in Bangladesh. Lease financing is better for SMEs because it is sometimes difficult for the SMEs to get loan from banks because of its tiny asset size. Lease financing has extended the opportunity for the SMEs to increase their business. SMEs are playing a significant role in the development of the economy of Bangladesh.

The volume of outstanding loan in Bangladesh has been increased because of the inefficiency of banks in long-term loan management. To ensure the flow of long term loans and to meet the credit gap, leasing companies have vast importance in the country. NBFIs are important to mobilize the savings into productive investment and to provide support services to the financial market in Bangladesh. Leasing companies in Bangladesh are providing lease financing, house building financing, merchant banking, short term financing and corporate financing. The leasing companies are not only participating in leasing business but also participate in stock market related activities such as issue management, underwriting, trust management, private placement etc.

Broad capital market activities of the leasing companies include bridge financing, corporate counseling, mergers and acquisitions etc. Different sectors like textiles, apparels and accessories,

transport, construction and engineering, paper and printing, pharmaceuticals, food and beverage, chemicals, agro-based industries, telecommunications, leather and leather products are taking the services provided by leasing companies.

Non-Banking Financial institutions in Bangladesh which are involved in leasing business, are as follows:

IDLC Finance Limited

Historical Background:

IDLC was initially established in Bangladesh in 1985 through the collaboration of International Finance Corporation (IFC) of the World Bank, German Investment and Development Company (DEG), Kookmin Bank and Korean Development Leasing Corporation of South Korea, the Aga Khan Fund for Economic Development, the City Bank Limited, IPDC of Bangladesh Limited, and Sadharan Bima Corporation. As the company evolved, initial foreign shareholding of 49% was gradually withdrawn and the last foreign shareholding was bought out by local sponsors in 2009.

Although it initially started with Lease Financing as our core product, IDLC has grown to become the largest multi-product Non-Bank Financial Institution of Bangladesh, with almost equal focus in Corporate, Retail and SME sectors. Moreover, IDLC has a significant presence in the Capital Markets. Our merchant banking arm, IDLC Investments Limited, a wholly-owned subsidiary of IDLC is a premier brand for investment banking in the country. Its stock brokerage arm, IDLC Securities Limited, another wholly-owned subsidiary of IDLC is also amongst the top five brokers in the country.

Over the years, IDLC has attained a significant presence in the corporate sector of Bangladesh. IDLC is highly respected by its clients, peers, employees and regulators for our strong corporate governance, statutory compliance, high ethical standards, a progressive and enabling working environment, and strong commitment to environmental and social development.

IDLC continues to play a pioneering role in introducing and popularizing a variety of financial instruments suiting ever-changing requirements of its fast-growing clients. IDLC is continuously expanding its presence to ensure the best quality of service to our clients at all times.

Company Profile:

Vision: Become the best financial brand in the country

Mission: Focus on quality growth, superior customer experience and sustainable business practices.

Objectives:

- Grow and develop our talent pool
- Fully leverage new core banking platform
- Optimize distribution points
- Grow and diversify funding sources
- Grow sales and service capabilities in Consumer Division
- Aggressively grow SME portfolio
- Focus on top-tier clients in Corporate
- Consolidate capital market operations and enhance capabilities
- Embrace internationally accepted corporate governance and sustainable business practices

Current Asset Condition:

Total Assets & Liabilities (Up to December 31, 2012) - BDT 35748171782/=

Retained Surplus (Up to December 31) - BDT 471360215/=

Balance at December 31, 2011- BDT 3220515574/=

Balance at December 31, 2012- BDT 3809715843/=

Total cash and cash equivalents as of December 31, 2012- BDT 3585867813/=

Business Operation:

Sources of Fund:

- Commercial banks
- Development finance institutions
- Deposits from local and foreign corporate bodies
- Deposits from Insurance companies
- Deposits from Individuals

Total Number of Share: 123750000

Sponsors/Directors: 63.82%

Institutions: 14.44%

Individuals: 21.74%

Uses of Fund:

Corporate Division:

- Corporate Finance
- Structured Finance

Consumer Division:

- Deposit Schemes
- Home Loan
- Car Loan
- Personal Loan

SME Division:

- Small Enterprise Finance
- Medium Enterprise Finance
- Supplier Finance
- Women Entrepreneur Loan
- Commercial Vehicle Loan
- JICA-SME Loan

Capital Market:

- Portfolio Management
- Investment Banking
- Research
- Brokerage Service
- Internet Trading (www.idlc.com)

International Leasing & Financial Services Limited

Historical background:

International Leasing and Financial Services Limited was established in 1996 as a joint venture public limited company with the prime objective of developing productive enterprises of the

company through the provision of lease financing & other related financial services, tailored to the needs of the customers.

With institutional shareholding structure, well educated and highly motivated human resources, superb working environment and dynamic corporate culture has enabled ILFSL to be a leading, prestigious financial institution of the country.

Company Profile:

Vision:

- To serve with flexibility and care.
- To rise high with our stakeholders.

Mission:

- Commitment towards the development of industrial & financial sectors by offering diverse, innovative financial products.
- Continuous drive in improvising our services tailored to clients' needs.
- Pursue proactive approach for reaping the benefits for all stakeholders.
- Attach importance to human resource management & administration and provide job satisfaction to all with equal opportunity for career development.
- Serve for the well being of the society.

Objectives:

- Continuous Diversification for maximization of shareholders' value
- Creating Synergy through symbiosis of Dynamic Management and Board.
- Serving and sustaining individual and institutional clients having high Integrity.
- Focusing intensely on maintaining a sound asset portfolio.

- Finding out Diversified Sources of Fund and exercising good Fund Management practices.
- Providing flexible and customized service to clients to build a long-term relationship.

Current Asset Condition:

Total Assets & Liabilities (Up to September 30, 2012) - BDT 17562201000/=

Retained Surplus (Jan-Sep 2012) - BDT 36513193/=

Balance at January 1, 2012- BDT 1968568349/=

Balance at September 30, 2012- BDT 2012225542/=

Total cash and cash equivalents as of September 30, 2012- BDT 1470161046/=

Basic Operation:

Sources of Fund:

- Commercial banks
- Development finance institutions
- Deposits from local and foreign corporate bodies
- Deposits from Insurance companies
- Deposits from Individuals

Usage of Fund:

International Leasing's financing programs includes lease facility, long term loan facility, short term loan facility, work order financing facility, real estate financing facility. International Leasing also extends project financing facility through syndicated arrangement whereas International Leasing acts as the lead manager. Specific project financing is customized with suitable grace periods and repayment schedules consistent with cash flow of the project.

(www.ilfsl.com)

International Promotion and Development Company of Bangladesh

Ltd. (IPDC)

Historical Background:

IPDC was established by a distinguished multilateral team of shareholders in 1981 as the first private sector financial institution (Bank or non-Bank) in Bangladesh. The founding shareholders were:

- The Government of the Peoples Republic of Bangladesh (GOB)
- The Aga Khan Fund for Economic Development (AKFED),Switzerland
- International Finance Corporation (IFC) an affiliate of the World Bank
- German Investment and Development Company (DEG), Germany
- Commonwealth Development Corporation (CDC) United Kingdom

In early 2004, AKFED, as part of its strategy to strengthen its presence in the financial sector of this region, acquired 70% stake in IPDC by purchasing the shares from IFC, CDC and DEG. In 2006, the shareholding structure was again changed by issuance of public shares. However, AKFED maintains the management control of the company holding 51% of the shares.

IPDC Board of Directors has eleven members, GOB 2, AKFED 7, Independent 1, Managing Director (Ex-officio) 1.

Company Profile:

Vision: To be the most respected and innovative financial institution of the country.

Mission: To be the brand of quality and integrity for delivering innovative and tailored financial solutions to a diverse client base.

Objectives:

- To ensure maximum return on investment
- To ensure steady sustainable growth in business
- To improve the quality of services
- To create innovative product and services
- To maintain highest level of ethical standard

Current Asset Condition:

Total Assets & Liabilities (Up to September 30, 2012) - BDT 7120031270/=

Net profit after Tax (Up to September 30, 2012) - BDT 38939136/=

Balance at January 1, 2012- BDT 1898722898/=

Balance at September 30, 2012- BDT 1913383872/=

Total cash and cash equivalents as of September 30, 2012- BDT 551636813/=

Business Operation:

Sources and Usage of Fund:

Company fulfills its capital requirement by the way of a) Term Deposit Scheme and b) Wealth Builder Scheme. There are five different types of Term Deposit Schemes. These are as follows:

- Monthly Profit Scheme
- Quarterly Profit Scheme
- Annual Profit Scheme
- Cumulative Profit Scheme
- FDR with simple interest

Company also has four different types of Wealth Builder Schemes. They are:

- IDFC Ultiflex Deposit Schemes
- Millionaire Deposit Scheme
- Double Money Deposit Scheme
- Deposit Premium Scheme

Company's deposit schemes vary from six months to five years and interest rates ranges from 8% to 11% p.a. All other facilities like Early Withdrawal, Flexible and Affordable Installment, Easy Payment Option, Gift Card Option, etc are available in the above schemes.

Companies Financing Portfolio includes:

- Project Finance
- Lease Finance
- Term Finance
- Equity Finance
- Working Capital Finance

Company follows all the standard set of procedure while financing. It protects the investor interest and ensures the repayment capability of the client availing finance. Company's interest rate varies from time and guarantor / sponsors for the finance are necessary based on the scheme.

Since its inception IPDC has played a pivotal role in developing country's industrial landscape. It had been partner to many of the very renowned corporate houses in Bangladesh in their incubation stage. Here are the names of a few of them: Citycell, Holcim-Bangladesh, GMG, Fantasy Kingdom, Summit Group, Scholastica, IDLC etc.

(www.ipdcbd.com)

Uttara Finance & Investment Limited

Historical background:

Uttara Finance and Investment Limited a joint venture leasing and financing company registered as a NON-BANK FINANCIAL INSTITUTIONS under the Financial Institution Act 1993 and the COMPANIES ACT 1994. It commenced business on 1 November 1995 with an authorized capital of Tk 250 million divided into shares of Tk 100 each. The paid up capital of the company is Tk 120 million. Of the total share capital, 25% is held by Bangladeshi sponsors, 20.83% by foreign sponsors (Singaporean), 14.10% by the INVESTMENT CORPORATION OF BANGLADESH, 0.09% by its employees and 39.98% by the general public. The company is listed with both Chittagong and Dhaka Stock Exchanges.

The company has A+ by Credit Rating Information and Services Limited (CRISL), it is The only listed FI in DSE 20 and Enjoy Re-finance facility from Bangladesh Bank.

Company Profile

Mission:

- To be an outstanding company of motivated people with excellent team work spirit
- To provide quality services and ensure steady growth of the company
- To bring about a qualitative improvement in the lifestyle of our people
- To provide lease finance to professionals and technicians on attractive terms
- To encourages continuous technological development and creation of employment opportunities
- To ensure human resources development to meet the challenges of the time

Vision:

To serve the nation through participation in the development of the economy as a leading company of Bangladesh.

Objectives:

The objective of Uttara Finance and Investments Limited is to ensure sustainable operational growth to maximize the benefits for the valued shareholders. To achieve the desired targets through the skilled, trained, experienced and motivated managements working hard with responsibility in financially disciplined environment to ensure satisfactory customer services.

Current Asset Condition (in 2011) (amount in million taka):

Revenue: 2838.84

Total Assets: 16717.99

Net Profit after Tax: 811.26

Investment in lease and term finance: 10041.70

Fixed Assets: 172.80

Business Operation

Lease: Uttara Finance extends Finance Lease facility to acquire capital assets to any sector preferably to ongoing concerns.

Loans: Uttara Finance extends short to mid Term Loans in following lines:

1. Working Capital Loan.
2. Bridge Finance.
3. Personal loan.
4. Home Loan.

Small and Medium Enterprises: Uttara Finance extends this facility to enterprises as defined by Bangladesh Bank from time to time.

Deposit schemes: Uttara Finance offers competitive rate of interest to individuals for tenure of 12 months to 36 months and to and corporate business houses for tenure of 6 months to 36 months.

Merchant Banking Unit: Uttara Finance offers full range of asset management services like Underwriting; Portfolio management; Bridge Finance; mutual fund; Individual investor's accounts in capital market.

Zero Down Payment Scheme: The scheme has been introduced to assist individuals and business concerns to facilitate acquiring of vehicles.

(www.uttarafinance.biz)

Phoenix Finance & Investments Limited

History:

Phoenix Finance & Investments Limited (Former Phoenix Leasing Company Limited), one of the leading and reliable multi products Financial Institution in Bangladesh was incorporated in Bangladesh on April 19,1995 as Public Limited Company under the Companies Act 1994 and started its operation on May 9 1995 as a Non Banking Financial Institution under Financial Institution Act 1993 , it has changed its name to Phoenix Finance & Investment Limited (PFIL) with a view to reflecting multi-dimensional financial activities the company has been doing other than Lease Financing which although , has remained as the prime area of the financial activities.

Authorized capital of the Company is TK, 1000 million divided into 10,000,000 ordinary shares of TK.100 each. PFIL has floated its share through the Initial Public Offering (IPO) of the Company for 12,50,000 Ordinary Share of TK 100 each at par amounting to Tk 12.50 crore in 2007. Now the paid up capital of the Company has been raised to 43,70,437 share amounting to Tk 43,70,43,700. The shares of the Company were listed with Dhaka and Chittagong Stock Exchanges on September 25, 2007.

Company Profile:

Vision: To act as the best financial service provider in the country.

Mission:

- To provide multiple financial products and services . To provide entrepreneurship skills and enterprises
- To promote employment generation and poverty alleviation
- To accelerate the pace of industrialization for prosperous Bangladesh . To promote passion for posterity
- To promote SME sector.

Asset mix of Phoenix Finance & Investments Limited:

House Building Finance: 8.57%

Term Finance: 21.46%

Lease Finance: 69.98%

Business operation:

PFIL now offers a wide range of financial services tailored to the needs of its customers which includes:

Asset Products

- Lease Finance
- Housing & Real Estate (Including Bangladesh Bank Refinance scheme)
- Short Term Finance
- Mid Term Finance
- Long Term Finance
- Financing against confirmed work order
- Start-up working capital
- Bridge Finance
- Factoring
- SME Loan
- Investment in Capital Markets

Debt Products

- Advance Income Option
- Periodic Income Option
- Monthly
- Quarterly
- Half-yearly
- Yearly
- All at Maturity Option
- Double Money Scheme
- Triple Money Scheme
- Monthly Saving Scheme

Services:

Corporate Services:

- Syndication of Loan/Lease
- Corporate Advisory
- Investment Counseling

Stock Brokerage Services: PFIL provides brokerage services through its 25% owned Associated Company named Phoenix Securities Limited (PSL), a member of DSE & CSE.

(www.phoenixleasing.com.bd)

The UAE-Bangladesh Investment Company Limited

Historical background:

THE UAE-BANGLADESH INVESTMENT COMPANY LIMITED (UBICO), is a joint venture Investment Company established under a bi-lateral agreement between the Abu Dhabi Fund for Development (ADFD) an integral entity of the UAE Government and the Government of Bangladesh. Of its share capital, 60% owned by ADFD and 40% by Government of Bangladesh. It was incorporated in the year of 1987 under the Bangladesh Companies Act with its headquarter in Dhaka. Bangladesh Bank granted license in 1995 to operate as a Financial Institution under Financial Institution Act 1993.

The company has promoted a number of medium and large scale industrial projects in manufacturing, agro based and infrastructure sectors which has created a significant number of job opportunities in Bangladesh. Currently UBICO is also funding for the development of Agricultural and Small-Medium Enterprise development sector of Bangladesh.

Company Profile:

Vision: To contribute towards Socio-Economic Development of Bangladesh.

Mission: To invest in financially viable socio-economic development projects of Bangladesh.

Basic Operation:

Portfolio position as at December 31, 2010

Garment Sector: 16.49%

Capital Machinery & Infrastructure Development: 18.95%

Small & Medium Enterprise Finance: 46.85%

Financial Sector: 17.71%

Performance Indicators:

Existing Project under management: 8

Project approved by the board : 10

Project Considered : 20

Economic value contribution:

Participation in Employment opportunity: 30,000 employments

CSR activities:

- Providing financial assistance to Flood Affected people
- Providing financial assistance to SIDR affected people
- Extending training facilities to the employees.
- Extending training facilities to the fresh graduate of different reputed Universities.

Performance Indicators - end of 2010:

- Revenue : + 49.48% (Year over Year)
- Return on Equity: + 19.28% (Year over Year)

- Earnings per Share; + 19.28% (Year over Year)
- Value per share: + 285.83% (since inception)

(www.ubinco.com/)

United Leasing Company Ltd.

Historical Background:

United Leasing Company Ltd. (ULC) was established on April 27, 1989. An associate of the Group, ULC was set up as a joint venture with participation from Asian Development Bank (ADB), Commonwealth Development Corporation (CDC) and Lawrie Group Plc, Duncan's parent Company in the U.K. Local investors were Duncan Brothers, United Insurance Company, Shaw Wallace Bangladesh and Natinal Brokers of Chittagong. The strategic vision was to assist the development of private sector industries mainly in their modernization programmes. ULC has come a long way since its inception, having grown significantly in size and portfolio and has established itself as one of the leading non-banking financial institutions of the country, known for its prudent business practices.

The core business remains lease financing and in recent years it has expanded significantly and diversified into products such as assignment based Factoring of Receivables, Small and Medium Enterprises (SME) financing etc. The Company launched home loan products from 2012. It has also expanded its business geographically by setting up five additional branches across the country. To counter rising funding costs and to reduce dependence on banks for funds ULC has introduced taking in deposits from the public. The infrastructure and the IT infrastructure have been strengthened internal control and risk management. The Company employs 130 people.

With shareholders' equity well above Tk. 1 billion and a portfolio of nearly Tk. 7 billion, ULC is well capitalized and ready to face the challenges of the future.

Company Profile:

Mission:

- To provide comprehensive leasing and financial services to a wide cross-section of the business community.
- To ensure uninterrupted growth and opportunity for its clients by providing complete and accurate information relative to each leased asset.
- To provide immediate and responsive communication to meet our customers' requirements.

Vision: Strive effectively helpful that we are able to earn your trust, respect and appreciation.

Current Asset Condition:

Total Assets & Liabilities (Up to December 31, 2012) - BDT 11816613371/=

Retained Surplus (Up to December 31, 2012) - BDT 182015243/=

Balance at December 31, 2011- BDT 1794682123/=

Balance at December 31, 2012- BDT 1954397366/=

Total cash and cash equivalents as of December 31, 2012- BDT 2038700320/=

Business Operation:

Sources of Fund:

Deposit of different company, insurance company, organization like United Insurance Co. Ltd., Lawrie Group Plc, U.K., Surmah Valley Tea Co. Ltd., Duncan Brothers (Bd) Ltd., Macalms Bangladesh Trust, Octavius Steel & Co. of BD Ltd., The Lunqla (Sylhet) Tea Co. Ltd., Camellia

Duncan Foundation, The Chandpore Tea Co. Ltd., Amo Tea Co. Ltd., Chittagong Warehouses Ltd., The Allynugger Tea Co. Ltd., The Mazdehee Tea Co. Ltd., Duncan Products Ltd. and deposit from individuals.

Usage of Fund:

Investment Services:

- Shanchay Scheme
- Term Deposit
- Earner Scheme
- Insured Deposits Scheme
- Quick Loan

Secured Finance:

- Lease Finance
- Home Loan
- Term Finance

Channel Finance:

- Factoring
- Work order Finance
- Distributer Finance
- Assignment Discounting
- Revolving Loan

Corporate Finance:

- Syndicate Loan

(www.ulc.com.bd)

GSP Finance Company (Bangladesh) Limited

History:

It is a NON-BANK FINANCIAL INSTITUTION incorporated in Bangladesh on 29 October 1995 as a public limited company under the COMPANIES ACT 1994. The company received its certificate of commencement of business on 14 January 1996 and its license on 4 March 1996. It went into commercial operations on 17 April 1996. It also received license from SECURITIES AND EXCHANGE COMMISSION on 24 August 1999 for working as a merchant banker. Five foreign sponsors hold 85.28% of its shares and the rest is held by domestic sponsors. The company was established with an authorized and a paid up capital of Tk 1,000 million and Tk 150 million respectively. The paid up capital in December 2000 was Tk 160 million.

MISSION:

To be among the top rated financial institutions assisting in the Industrial Development of Bangladesh by efficiently providing a wide range of financial products and services to clientele.

VISION:

To work with its clients changing needs and provide accurate and useful advice for the growth of the country.

FUNCTIONS OF THE COMPANY:

The company offers lease finance to all types of plant, machinery, equipment and vehicles both for industrial and commercial use and for pharmaceutical industries. Merchant banking activities

of the company include transactions in Mutual Funds, issue management and underwriting of public issue of shares and debentures, and participation in the trading of shares in the STOCK EXCHANGES. It also receives term deposits. Other functions of the company are hire purchase, supply of venture capital, short and medium term loans to industrial units and individual entrepreneurs, project financing (separately and by syndication), and investment and other financial counseling.

SOURCES OF FUNDS:

Major sources of funds of the company are

- A) share capital and reserves
- B) long-term liabilities
 - lease margin,
 - advance lease rentals and
 - secured loans
- C) term deposits

PRINCIPAL ACTIVITIES:

- Credit & Marketing
- Merchant Banking
- Money Market Operations
- Other Financial Market Operations

PRODUCTS & SERVICES:

- Lease finance
- Tern Loan
- Bridge Finance
- Loan against fixed deposit
- Loan against property
- Loan against securities
- Factoring
- Bill discounting
- Deposit scheme
- Share investment service
- Syndication & club financing

(www.gspfinanceco.com)

Prime Finance

Historical Background

Prime Finance and Investment Limited a non-bank financial institution engaged in leasing and merchant banking operations in Bangladesh. It was incorporated on 10 March 1996 as a public limited company under the company's act 1994 and was licensed on 25 April 1996 by the Bangladesh bank under the Financial Institutions Act 1993. The company obtained license from the Securities and Exchange Commission on 25 July 1999 to conduct merchant banking. It commenced leasing operations on 15 July 1996 and merchant banking on 16 October 1999. At

the time of establishment, it's authorized and paid up capital was Tk 500 million and Tk 50 million respectively divided into ordinary shares of Tk 100 each.

Vision

For clients

Working closely with our clients;

For shareholders

Maximizing shareholders' wealth achieving superior performance;

For employees

Providing a workplace in which employees are rewarded and respected properly;

For our communities

Supporting community initiatives in health, education, arts and economic & social development.

Mission

Grow profitably

Through partnership with our clients delivering innovative solutions to cater their financial needs;

Create shareholders' value

Through client satisfaction and employee commitment to excellence;

Enhance the ability of employees

Giving every opportunity to have access to adventurous experience through which they can raise their self-esteem, realize their full potential and achieve more than they ever thought possible;

Serving our communities

With integrity and pride.

Goal

- Building quality investment portfolio;
- Focusing on minimizing default loans within the portfolio;
- Developing and maintaining dependable and long-term relationships with our clients;

- Sustaining solid growth without compromising profitability;
- Achieving higher return on equity;
- Maintaining strong relationships with a wide variety of partners;
- Responding quickly to new opportunities;
- Assessing and managing business risk prudently.

Company Profile and Business Operation

The Company has a well diversified asset base and investment portfolio and the asset quality has been improving every year. The diversification of the earnings stream has also been increasing consistently. The company was trying to accomplish this by strengthening human resources pool; managing fund effectively; reducing NPL, increasing employees rewards; selecting right clients for financing; introducing liabilities & fund management team; reshaping sources of fund; reducing dependency on Banks borrowing; ensuring transparency; increasing team work; managing risks properly; building strong relationship with clients; protecting stakeholders interest; increasing full automated system within operations; widening area of operations; responding quick to new opportunities and so on.

Products & Services: Winning value excellence has been the spirit of Prime Finance. Keeping the varied nature of client base and their unique needs in mind, the Company has been constantly diversifying its products which are evidenced from the following list of versatile products and services:

- Term finance
- Lease finance
- Real estate finance

- Bill discounting
- Bridge/equity finance
- Syndicated finance
- SME finance
- Hire purchase

Sources of funds

Shareholders' equity

- share capital ,
- reserves and surpluses
- profit for the year .

Long-term liabilities,

- Bank loan ,
- lease/security deposits ,
- term deposits and
- portfolio investment deposit

(www.primefinancebd.com)

Reliance Finance Limited

Corporate History and Milestones

The history of Reliance Finance Limited (REFL) dates back to 1996 when the company was registered in 1996 as Bahrain Bangladesh Finance and Investment Company Ltd. The company was established as a joint venture between few renowned investors from Bangladesh and Bahrain. However, in 2000, the Mascot Finance Company Ltd. (MFC) of Sultanate of Muscat

along with some other investors acquired the majority shares of the company and the company was renamed as Oman Bangladesh Leasing & Finance Ltd. Again, in 2003, the overseas investors from Mascot sold all of their holdings to local investors and since then it became a local company.

In March 2009, the renowned S. Alam Group from Chittagong purchased all the shares of the company except a minority holding by National Life Insurance Company Ltd. and made major strategic change in management, Capital base and operational philosophy of the company. Since the changes in shareholding as well as management the business focus of the company has also changed. The company has diversified its financial products as well as area of operation. While corporate finance team will continue to provide its excellent services to the big corporate houses in the country and will hold the longest pie of investment, the SME and Housing finance are the new focused area. Business ethics, economic contribution to the overall development of the economy through employment generation, and social issues always gets preference in investment decisions. REFL is a Member of Dhaka and Chittagong Stock Exchange Ltd. and provides security brokerage services through DSE and CSE.

Milestones:

4 th March 1996	:	Incorporation of the Company
11 th April 1996	:	Certificate of Commencement of Business
15 th May 1996	:	License from Bangladesh Bank as Non-Bank Financial Institute under the Financial Institutions Act, 1993
8 th September 1996	:	Approval of Bangladesh Bank to open a Branch at Globe Chamber, 5 th floor, 104, Motijheel C/A, Dhaka
01 st August 2001	:	Change of the name of the company from Bahrain Bangladesh Finance & Investment Company Limited to Oman Bangladesh Leasing & Finance Ltd.
18 th January 2007	:	Relocation of Company's Registered and Corporate Head Office at 11/A, Toyenbee Circular Road, Motijheel, Dhaka.
12 th January 2010	:	Change of the name of the company from Oman Bangladesh Leasing & Finance Ltd. to Reliance Finance Limited.

Vision

To lead the industry while generating value to the stakeholders, be the pioneer in setting ethical standard and be everyone's investor.

Mission

- To lead the industry by providing innovative financial products and services
- value to the shareholders with total satisfaction
- To establish "customer-first" business strategy
- To be a social responsible investor by making investment only in desirable industry
- Provide employees with motivating work environment, opportunities for learning and career development, competitive compensations and equal opportunities.

Objective

- Create synergetic effect by creating high quality and diversified portfolio
- Provide diversified financial services with focused people
- Appreciate uniqueness of each customer's requirements and serve the customers with product flexibility
- Diversification of sources of fund
- Enhance Corporate value through sustained growth.

(www.reflbd.com)

Bay Leasing and Investment Limited

Historical Background

Bay Leasing and Investment Limited (BLIL) incorporated in Bangladesh as a public limited company under the company's act 1994. It obtained license from the Bangladesh bank as a non-

bank financial institution under the Financial Institutions Act 1993 on 25 May 1996 and commenced leasing and other types of financing activities at that time. The company was established with an authorized and a paid up capital of Tk 500 million and Tk 50 million respectively, divided into shares of Tk 100 each. In June 1998, the Securities and Exchange Commission granted the company the license to operate as a full-fledged merchant banker. The company's paid up capital rose to Tk 40 million in 2000 to lever the accompanied risk of its increased business performance.

Bay Leasing and Investment Limited was initially established to provide lease finance for all types of industrial, commercial, agricultural, transport, marine, electric and electronic equipment/machinery, elevator, generator and other fixed capital goods. Extending term finance for BMRE and for other purposes was also an important objective of the company.

MILESTONE

Incorporation as a Public Limited Company	:	February 7, 1996
Certificate for Commencement of Business	:	May 19, 1996
Bangladesh Bank License as NBF	:	May 25, 1996
Commencement of Commercial Operation	:	May 27, 1996
First Lease Agreement signed	:	July 3, 1996
First AGM Held	:	July 24, 1997
Registered as Merchant Banker	:	June 25, 1998
Agreement with CDBL	:	December 7, 2008
Listed in DSE & CSE	:	April 12, 2009
Approval to issue Rights Shares	:	August 4, 2010

Vision

To be recognized as the most preferred multi-product financial institution for the communities we serve.

Mission

- We strive to innovate and offer a plethora of financial products and services.
- We endeavor to enrich the lives of people we touch by sharing, caring in our quest for excellence.
- We aim to build impressive economic value for our stakeholder's through the strength of satisfied customers and consistently produce superior operating results.

Business Operation

From its inception Bay Leasing & Investment Limited ran its operations in a professional manner under the capable guidance and leadership of its Board of Directors. The employees are fully committed and dedicated to its growth and have been very loyal. On account of this the employee turnover of Bay Leasing & Investment Limited is the lowest in the industry. The customer portfolio is well diversified and a vast number of entrepreneurs have been benefited immensely through long term relationships.

The shares of Bay Leasing are listed and traded both in Dhaka and Chittagong Stock Exchanges and has been rated as one the top 10 turnover leaders.

In the quest for excellence in service Bay Leasing & Investment Limited has launched a wide range of consumer products such as Profit Take Home Plan, Double Money Plan, Triple Money Plan, Millionaire Plan, Super DPS Plan, Win-Win Plan, Flexi Savings Plan, SME Loans are

gaining momentum and efforts are underway to offer new products and services to corporate clients.

BLI Securities Limited an associate concern of Bay Leasing & Investment Limited is among the top brokerage houses in Bangladesh and renders their services from its Head Office and branches.

The Merchant Banking Division is being separated as per regulatory suggestion and shortly a wholly owned subsidiary under the name BLI Capital Limited will commence operation in Dhaka.

(www.blilbd.com)

LankaBangla Finance Limited

HISTORY

LankaBangla Investments Limited (LBI) was incorporated in Bangladesh with the Registrar of Joint Stock Companies and Firms (RJSCF), vide registration no. C 83568/10 dated 29 March 2010 as a Private Limited Company under the Companies Act, 1994. This Company is a fully owned subsidiary of LankaBangla Finance Limited. LBI inherited its merchant banking operation from its parent company, LankaBangla Finance Limited, which was the first merchant bank to offer discretionary portfolio management services back in 1997. During the period of 1999-2005, its operation became stagnant due to the market condition.

At the end of 2006, its merchant banking operation started again with a nondiscretionary portfolio product along with issue management and underwriting services. By the end of 2010, it became one of the top merchant banks.

In 2010, to respond to the regulatory desire to spin off its merchant banking operation under a separate company to bring more transparency and regulatory control, LankaBangla Investments was formed as a fully owned subsidiary and it obtained full-fledged merchant banking license from SEC on 02, January, 2011 and officially started its operation on 16th January, 2011 taking ownership of the entire merchant banking obligations of LankaBangla Finance Limited.

VISION

To be the nation's most sought after facilitator in creating, nurturing and maximizing value to the stakeholders, the society, the environment, and thereby, growing together.

MISSION

To lead by example through a committed team of nurtured resources fostering ownership that motivates thriving towards excellence in knowledge, systems, processes and procedures, thereby empowering the organization on at every level to deliver the highest quality of product, customer care, and stakeholder value keeping environmental safety a priority.

GOALS

To be the most preferred financial services provider

- To maximize the value of being our customer, shareholder or employee
- To build and retain a team of highly skilled human resources through talent hunting, nurturing, training, developing and motivating through rewarding to deliver the highest level of customer service
- To build state-of-the-art technological framework for ensuring faster, accurate, timely and risk calculated operations capable of coping with ever increasing financial and operational complexities
- To standardize policies, rules, regulations and operational procedures guiding seamless and efficient delivery of service at every level

- To develop and maintain an organizational culture committed towards ownership thriving for continuous innovation and improvement in our way of doing business to meet and exceed stakeholders ever growing expectations
- To establish strong regional presence through expanding our product and service delivery networks covering wider clienteles
- To optimize contribution to the society
- To take care that in creating wealth, the environment is protected and its ecology is well balanced.

COMPANY PROFILE:

LankaBangla Finance Limited (LBFL) a joint venture financial institution established with multinational collaboration is in operation since 1997 having license from Bangladesh Bank under Financial Institutions Act, 1993. With institutional shareholding structure, educated & motivated human resources, friendly working environment & dynamic corporate culture has enabled LBFL to be a diversified financial services providing institution of the country. Technical support provided by Sampath Bank Limited, Sri Lanka has been working as a catalyst to emerge LBFL as most innovative financial solution provider strictly in compliance with the rules & regulations of Bangladesh Bank. LankaBangla Finance went for public issue in 2006 and its shares are listed in both Dhaka Stock Exchange and Chittagong Stock Exchange since 17-October-2006 and 31-October-2006 respectively.

(www.lankabangla.com)

Bangladesh Industrial Finance Company Ltd.

Historical Background:

Bangladesh Industrial Finance Company Limited (BIFC) is a joint venture Leasing and Financing Company, promoted by a group of Foreign and Local Sponsors.

Incorporated as a Public Limited Company in August 1996 and licensed by Bangladesh Bank as a Non-Bank Financial Institution in February 1998, BIFC has been rendering innovative, customized, prompt and cost effective financial solutions to the socio-economic growth of the country, maintaining the highest standard of business ethics and Customers' satisfaction.

Company's Profile:

Vision and Mission:

Vision: To be a leading financial institution and gain confidence of the society.

Mission:

- Nature, Develop and train professional workforce into a self-motivated team to be a recognized and strategic organizational asset.
- Ensure equitable distribution of resources in the country.
- Innovate appropriate products befitting the need of time and demands.
- Ensure steady growth and consistent return on the investment.

Business Operation

BIFC works on clients' needs. The company accommodates clients' requirements through dedicated experienced professionals for easy, prompt and customized financial solutions. It has no boundaries regarding area of financing.

Share holding structure of BIFC

The issued shares comprises of, Sponsor Shareholders Group, Directors Group, Individuals Group, Institutions, Government and Semi government Institutions.

The major products it currently offers are:

- Lease Finance
- Term Loan
- Equity Support
- Real Estate Finance
- Short Term Loan
- Term Deposit Schemes

The main uses of funds of BIFC are –

- SME finance
- Term loan
- Corporate finance
- Lease finance in case of machineries & equipments
- Home loan

(www.bifcol.com)

Union Capital Limited

Union Capital Limited a registered and established in Bangladesh on 12 August 1998 under the Financial Institutions Act 1993 to carry out businesses of lease financing for industrial, commercial, medical, electric and electronic equipment and all types of transport equipment including vehicles, corporate financing and management, stock market activities, term deposit taking and other investment activities. Corporate financing activities include advisory services,

syndicated loans, venture capital finance, merger & acquisition, and participation in the privatization process of industrial and commercial enterprises. The institution conducts trading in share both in Dhaka and Chittagong Stock Exchanges through its subsidiary, the SES Company Ltd. Union Capital started functioning with an authorized capital of Tk 500 million divided into 5 million shares of Tk 100 each. The paid up capital was Tk 50.5 million on 30 June 2001.

In 2000, the company created a reserve fund of Tk 2 million. The company leased different types of machinery and equipment to large and medium scale industries and real estate and transport sector enterprises.

The cumulative value of leased assets up to 31 December 2000 was Tk 133 million. Investments of the company in other assets stood at Tk 18 million on the same date. During the period of its operations up to December 2000, Union Capital provided a total of Tk 6 million in term finance to 74 projects.

Total capital and liabilities of Tk 63.66 million comprised total shareholders' equity Tk 46.28 million, term loans from banks Tk 6.90 million, lease deposits received Tk 4.96 million and other liabilities Tk 5.51 million. Total operating incomes and expenses of the company in 1999 were Tk 21 million and Tk 22 million respectively that registered a gross loss of Tk 1 million. The corresponding figures for 2000 were Tk 43 million and Tk 36 million showing a gross operating profit of Tk 7 million. In 2001, the company had 24 employees headed by the managing director, who is also the member secretary of the company's board of directors.

(www.unicap-bd.com)

National Housing Finance and Investment Limited (NHFIL)

National Housing Finance and Investment Limited (NHFIL) a private sector housing finance company incorporated in Bangladesh on 18 August 1998 as a public limited company under the Company act-1994, on 29 December 1998, the company received license from the Bangladesh Bank to operate as a NBFIL under the Financial Institutions Act 1993. It started operations in June 1999 with an authorized capital of Tk 2,000 million divided into 20 million ordinary shares of Tk 100 each and a paid up capital of Tk 200 million. The company provides loans for construction of houses, purchase of flats or houses, extension and improvement of existing houses or flats, and purchase of housing plots.

Other business objectives of the company include investment and fixed deposit products for both individuals and corporate bodies. With a view to providing finance for peoples' basic need for shelter, enhance housing stock of the country, and promote affordable home ownership, the company has plans to undertake housing projects and to offer project lease finance.

Up to 30 June 2000, the NHFIL provided a total amount of term loans of Tk 204.67 million. Total liability of the company included shareholders' equity of Tk 207.25 million (paid up capital Tk 200 million and reserves Tk 7.25 million) and long-term bank borrowings of Tk 11.55 million. Total assets of the company including the term finance stood at Tk 403 million on 31 December 2000.

As the company's business operations were very limited and preliminary expenses were greater, its total operating revenues were lower than the total operating expenses by Tk 3 million registering a loss at the end of its 6-months long operational period up to December 1999. With

the expansion of its operations during 2000, its operating revenues increased to Tk 48 million as against the operating expenses of Tk 13 million showing an operating income of Tk 35 million. The company has a board of directors and a 19-member management team led by a managing director.

www.nationalhousingbd.com

First Lease Finance and Investment Limited (FLFIL)

Historical Background:

First Lease Finance and Investment Limited (FLFIL) established in the year 1993. The company started its business operation since inception as a Private Limited Company and subsequently converted into Public Limited Company with limited vicinity and gradually the company becomes one of the largest Financial Institutions in Bangladesh.

Currently, the company has been operating lease financing, term loan financing, real estate financing and housing financing, SME financing with its 4(four) branches in 4(four) different prime locations of the country with an objective to meet up the all types financial needs for its clients.

During the past decade of its operation, FLFIL has played a major role in producing alternative source of term and capital asset financing to the private, commercial and SME sectors.

First Lease's primary focus has been in the area of 2-5 years term financial leasing with particular emphasis on balancing, modernization, replacement and expansion of existing units. FLFIL Shareholders have upheld their commitment towards the development of the financial service sector by offering high quality services to local entrepreneurs. To ensure steady and long term growth as well as to sharpen its competitive edge in an ever changing and challenging business

environment. FLFIL always endeavors to diversify into different financial services, which have long-term prospect.

In the year 2001, we expanded our range of services by introducing Housing Finance. In line with further diversification program FLFIL has encouraged in transport financing, SME financing and Bangladesh Bank Refinancing projects. The company also provides FDR (Fixed Deposit Receipt) to its valuable customers. FLFIL is on its way to become one of the leading multi-product financial institutions of the country in coming years.

Company's Profile:

Vision and Mission:

First Lease Finance Investment Limited (FLFIL), is one of the pioneer in Lease Financing sector in Bangladesh. Since its inception FLFIL has been playing a significant role in financial sector and provides financial support to private and public sectors for acquiring Industrial machineries, Working capital, Housing financing, Work Order financing, SME financing etc. Recently the Management of FLFIL has emphasis on SME Finance particularly for the Women Entrepreneur to contribute in the development of country economy.

FLFIL always endeavors to diversify into other financial services, which have long-term prospects. FLFIL has expanded its range of services by introducing Housing and Short term financing in the year 2001, which have broadened our customer base. In line with further diversification program FLFIL has encouraged in transport facility, SME financing and Bangladesh Bank Refinancing projects.

With it continues drive in introducing new financial products and services tailored to clients need; FLFIL is on its way to become one of the leading multi-product financial institutions of the country in coming years. FLFIL ensure that all of its valued customers have an excellent services

and facilities. FLFIL is determined to build, maintain and enhance as an international standard financial institution and provide various financial services of excellence.

Business Operation:

Sources of Funds

First Lease Finance & Investment Limited enlisted in Dhaka Stock Exchange on 2003, it's been rated as "A" category share under the financial sector as on 01-10-2012.

The company's Authorized Capital is Tk. 5,000.00 million divided into 500 million ordinary shares of Tk. 10 each. The Paid up capital comprise of statutory reserve and issued share. The Statutory reserve stood at Tk. 254.42 million and issued share (Paid up capital) stood at Tk. 503.12 million as on 31/12/2011. The issued shares comprises of, Sponsor Shareholders Group, Directors Group, Individuals Group, Institutions, Government and Semi government Institutions FLFIL is authorized by Bangladesh Bank to accept deposit & it collect most of their funds from variety of attractive time deposit. It offers five deposit products-

- FLFIL Monthly Profit Term Deposit
- FLFIL Quarterly Profit Term Deposit
- FLFIL Cumulative Term Deposit
- FLFIL Double Term Deposit
- FLFIL Triple Term Deposit

Uses of funds:

The main uses of funds of FLFIL are –

- Car loan
- SME finance
- Term loan

- Working capital
- Corporate finance
- Lease finance in case of machineries & equipments
- Home loan
- Developers loan

(www.first-lease.com)

Bangladesh Finance and Investment Co. Ltd

Historical Background:

Bangladesh Finance and Investment Co. Ltd. (BDFinance) is a Non-Banking Financial Institution engaged in lease financing operation. The Company having its registered office at Baitul Hossain Building, 27 Dilkusha C/A, Dhaka-1000, Bangladesh, was incorporated in Bangladesh on 10 May 1999 as a Public Limited Company under the Companies Act 1994. The license was issued from Bangladesh Bank on 22 December 1999 under the Financial Institutions Act 1993. The operation of leasing activities was started on 15 February 2000 through signing the first lease agreement on that day.

Company Profile:

Mission, Vision, Objective

To be the number one financial institutions in the finance and leasing industry by focusing on the customers, diverse financial needs and providing them with customized financial solutions to the satisfaction and profitability of valued customers and stakeholders.

The Company has also plans to focus on merchant banking services including fund management, issue and portfolio management etc. as well as consultancy on issue concerning banking and finance. The Company is also engaged in money market activities such as placing and accepting of term deposits.

Business Operation:

BFIC'S financing programs includes direct loans and equity investments as medium to long term funding to private ventures. BFIC also provides lease finance and short term finance assistance to private industrial enterprises. BFIC's participation is normally in the form of "project financing", which is based primarily on the economic, technical, marketing and financial soundness inherent in the project.

Specific project financing is tailored with suitable grace periods and repayment schedules consistent with sound credit practices and principles. An assortment of other financial services is offered which includes provisions for working capital, bridge financing, issue placement, underwriting, preference shares and debentures. Where additional funds are needed, BFIC has often undertaken to arrange the total financing required for the project through loan syndication among other financiers. Financing for projects is provided through direct loans, equity participation, or a suitable combination of these. Typical loans range in amount from Tk. 10 million to Tk 150 million. In US dollars, this is about \$200,000 to \$2.7 million in local/ or foreign currency. Loans are available in local and/or foreign currency. In the case of justified expansion of successful existing business or initiation of new ventures, BFIC participation, within the range specified above, businesses or initiation of new ventures, BFIC does not exceed 33 percent of the total project costs/or 25% of the total net worth. However, this limit might be

relaxed if the project merits special consideration. And if required, BFIC might syndicate any additional financing.

(www.bdfinance.net)

Midas Financing Limited (MFL) Bangladesh.

Historical Background:

Midas Financing Limited was founded in 1995 and obtained license in 1999 from Bangladesh Bank to carry out Leasing Finance Activity. It started its operation from 1st January 2000 and listed on Dhaka Stock Exchange in October 2002. It's been rated as "A" category share under the financial sector as on 04-11-2012.

Today company is in experienced hands of finance professionals who have great vision for the growth of the company. Company employees are its real strength and has played major role in success of company. Company has today built a large group of satisfied investors and customers. With all these crowns in their head, the company wants to be a leading player in financial arena of Bangladesh.

Company Profile

Its objective is to provide variety of financial services to its valued customers by emphasizing strictly on ethical practices. Its vision is to be a leading financial institution in Bangladesh and help the country by developing an entrepreneurial society. It has always focused on continuous development and adding value to its business and hence today has emerged as "**Real Friend**" of Entrepreneur.

Business Operation

Sources of Funds

MFL collects most of its funds from variety of deposit scheme. MFL has various deposit schemes for its investors. It gives them options of Term Deposits with return on investment in the range of 12-12.5%, Monthly Deposit Scheme (TK. 1000 invested monthly will be TK 2,37,950), Monthly/Quarterly Income Deposit Scheme, Double Money Deposit (Double the Amount in sixty eight months) and Triple Money Deposit Scheme (Triple the Investment in Nine and Half Years) for long term investors. Due to transparent management, ethical practices in business, and competitive interest rates it has been able to attract large amount of deposits. It publishes its interest rate on its website from time to time. Besides, money is invested in secured investment to keep the customers investment safe. Customer can get the money back with hassle free process during emergency which is the additional advantage to investment in **Midas Finance**.

Uses of Funds

MFL has wide range of product services to cater its clients. It has financing options available for individuals who want to avail housing loans for their dream home purchase. Its information like interest rate and processing fees can be avail from any of the **MFL** branches. It gives lease finance for industrial requirements like purchasing capital machinery with lease period of 2-5 years and 1% of processing fees. It provides lease finance up to TK. 25 Lacs without any collateral security and relatively lesser processing time.

It gives special incentives and offers special window for **Woman Entrepreneurs**. This loan is meant for Heavy Construction Equipment, Generator, Vehicles, Agricultural equipments, Architectural equipments, Medical equipments etc.

MFL has **MIDI (Micro Enterprise Development Initiative)** Program where it finances industries for project loan and working capital loan for existing units. Rate of interest for this program is 18.75% and can be avail for maximum 4 years period. Loan up to TK. 7.5 Lacs is **Tax Free** in this program. This program has special rate of interest for woman and also gives special incentive for timely repayment. It also has **SED (Small Enterprise Development)** Program where it provides long term project and working capital finance for industries. Here it gives 5% interest rebate for those who pay loan on time. Such program has helped the company to build healthy portfolio by having quality customers.

(www.midasfl.com)

Industrial and Infrastructure Development Finance Company (IIDFC)

Historical Background:

Industrial and Infrastructure Development Finance Company (IIDFC) Limited is a non bank financial institution, Industrial and Infrastructure Development Finance Company Limited (IIDFCL) was incorporated in Bangladesh on December 19, 2000 as a public limited company. The Company was licensed under Financial Institution Act, 1993 by Bangladesh Bank on January 23, 2001 and started operation from May 2001.

The registered office of the Company is situated as Chamber Building (6th Floor), 122-124, Motijheel C/A, Dhaka – 1000, Bangladesh.

Company Profile:

The objective of IIDFC is to promote and finance investments in infrastructure and industrial sector. Since its inception, IIDFC has played a catalytic role in providing alternative source of financing of capital assets to the private sector enterprises. The services provided included promotion and financing of economically viable industrial undertakings and infrastructure

projects, lease financing for all types of machinery and equipment includes transport vehicles, participation in the privatization of financial and other public enterprises through acquisition or by providing technical assistance.

Business Operation:

Sources of Funds

IIDFC depends on a wide array of sources for resource mobilization, the primary objectives of which is to bring down the cost of funds to remain competitive by providing lower lending rates.

The sources of funds of the company are a combination of the following:

- *Paid-up Capital, Reserves & Retained earnings
- *Credit lines from banks and other financial institutions
- *Market borrowings through issue of bonds and other instruments
- *Term deposits
- *Lease deposits

Uses of Funds

IIDFCL provides financing for capital assets to the private sector enterprises in Bangladesh. Its services include promotion and financing of economically viable industrial undertakings and infrastructure projects; lease financing for machinery and equipment, including transport vehicles; and participation in the privatization of financial and other public enterprises through acquisition or by providing technical assistance. The company offers term loans, bridge finance, club finance, work order finance/factoring, agro based finance, and advisory services; project finance through investment promotion financing facility of Bangladesh Bank; and refinance for existing facilities.

IIDFC is active in arranging syndicated finance for large projects and is one of the market leaders in this segment. There is separate department for SME financing. IIDFC also offers Bill Discounting, Work Order Finance and other services.

(www.iidfc.com)

Islamic Finance & Investment Ltd

Historical background:

Islamic Finance and Investment Limited (IFIL) is a financial Institution incorporated in Bangladesh on February 27, 2001 as a Public Limited Company under the Companies Act, 1994. The company obtained its license from Bangladesh Bank on April 12, 2001 as required under Section 4(1) of the Financial Institutions Act, 1993. IFIL has a authorized capital of Tk. 1000.00 million out of which Tk. 1016.814 million is paid up. The Company went for public issue in 2005. It is listed in both Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited.

IFIL started its commercial operation on April 19, 2001. From the very beginning of its operation, IFIL is playing an important role in leasing sector. As a full fledged financial institution it receives deposits and extends investments through better counseling and effective services to the clients for the socio-economic development of the country. The company continued to be a major financier to Industrial sector and has also supported sectors like real estate, trading and other sectors. IFIL is the first ISO certified company in the financial arena of Bangladesh. It is regulated and supervised by Bangladesh Bank. As a listed company in the Stock Exchanges, IFIL complies requirements of Securities and Exchange Commission. As per the latest Bangladesh Bank Inspection Report IFIL's CAMEL rating is 2(Two) i.e. satisfactory.

Company profile:

The philosophy of IFIL is to develop the company into an ideal and unique financial institution. The sponsors' perception is that IFIL should be quite different from other privately managed financial institution in Bangladesh. IFIL is the "FIRST" Financial Institution of the country based on Islamic Shariah. The philosophy of IFIL is to grow as a leader in the industry rather than a follower.

The leadership will be in the area of services, constant effort being made to add new dimensions so that clients can get "Something Extra" in the matter of services to commensurate with the needs and requirements of the country's growing society and developing economy.

Vision: To be a leader in Financial arena of Bangladesh with Islamic values.

Mission:

- To build a strong and dynamic institution to make a viable alternative to conventional system.
- To provide quality products and services to the clients with sincerity, honesty and care.
- To maximize clients' and shareholders' value with stable growth.
- To apply Shariah principles and maintain the highest level of ethical standard and transparency in all business transactions.
- To provide a congenial work atmosphere to create and attract competent work force.
- To be socially responsible and make effective contribution to national development.

Business operation:

Investment Products:

- Lease(Ijarah)
- Hire Purchase Sherkatul Melk(HPSM)

- Bai Muajjal(BIAM)
- HDS
- Mudaraba
- Musharaka
- Murabaha
- Bai-Salam
- Bai-istanza

Deposit Products:

- Mudaraba Term Deposit Scheme
- Mudaraba Term Deposit Scheme(Monthly Profit paying)
- Mudaraba Pension Deposit Scheme
- Mudaraba Hajj Deposit Scheme
- Mudaraba House Owning Deposit Scheme
- Mudaraba Mohor Deposit Scheme
- Mudaraba Special Deposit Scheme
- Mudaraba Marriage Saving Scheme
- Mudaraba Education Saving Scheme
- Mudaraba Lakhapoti Deposit Scheme
- Mudaraba Millionaire Deposit Scheme
- Mudaraba Kotipoti Deposit Scheme
- Mudaraba Double Money Deposit Scheme
- Mudaraba Triple Money Deposit Scheme
- Mudaraba Higher Education &Marriage Deposit Scheme

Corporate Services:

- Loan Syndication
- Corporate Advisory Services
- Guarantee Issue.

(www.ifilbd.com)

FAS Finance & Investment Limited

Historical Background

FAS Finance & Investment Limited (formerly named as Fidelity Assets & Securities Company Limited) is a Non-Banking Financial Institution (NBFI) formed under the Financial Institutions Act, 1993. The Company was also registered as a Merchant Bank with the Securities and Exchange Commission on 22 January 1998 with which FAS Capital Management Ltd. is carrying its business. FAS Finance & Investment Limited was incorporated as a Private Limited Company on 04 March 1997 under the Companies Act, 1994 and was converted into Public Limited Company on 18 August 2001.

It started lease financing operation after obtaining license from Bangladesh Bank on 17 September 2001. FFIL obtained license for principal branch vide Bangladesh Bank letter dated September 26, 2001 and 1st lease agreement & commencement of public deposit mobilization commenced on December 27, 2001.

It also commenced home loan on 11 June 2003. FFIL obtained license for Chittagong, Narsingdi and Sylhet branches under section 4(1) of the Financial Institution Act, 1993 on 14 February, 18 July 2007 and 09 July 2008 respectively. The Company is listed with both Dhaka and Chittagong

Stock Exchanges (09 January 2008). It launched its first trading of shares in Dhaka and Chittagong Stock Exchange on 16 January 2008.

The Head Office of FAS Finance & Investment Limited (FFIL) has been shifted from its previous address at 71 Mohakhali Commercial Area (2nd floor), Dhaka-1212 to its new location at Suvastu Imam Square (4th floor), 65 Gulshan Avenue, Gulshan, Dhaka-1212 with Bangladesh Bank approval letter no. DIFM (L) 1053/80/2008-832 dated 29 April 2008.

2. Company profile:

- a. Our Vision:** Become a market leader by providing innovative , integrated financial services and to create best value to our shareholder.

- b. Our Mission:** Develop the company into an ideal & unique financial institution by providing with excellent financial products and customer services to all our customers- corporate and individual not excluding the high paced pro-active participant of corporate social responsibility.

- c. Objectives:** Be one of the market leaders of the industry Achieve excellence in customer service next to none and superior to all competitors be a high quality distributor of financial products and services.

Provide customized financial services to specific clients in both leasing and merchant banking services to build the company as multi-product non-bank financial institution for different segment of the market maximize profitability sustain steady growth.

Maximize benefit and satisfaction of the customer.

Maximize the welfare of the society through employment, training, grant etc. reflecting our social responsibility.

Current assets:

Cash in hand (including foreign currencies).

Balance with Bangladesh bank and its agent banks (including foreign currencies).

Balance with other banks and financial institutions.

Investments

Loans, advances, and leases.

3. Business operation:

Sources and funds:

Borrowing from others banks, financial institutions and agents.

Deposits and others accounts.

Others liabilities.

Minority interest.

(www.fasbd.com)

Fareast Finance & Investment Limited

Historical Background:

Fareast Finance & Investment Limited (FFIL) was incorporated in Bangladesh as a public limited company with limited liability on June 21, 2001 under The Companies Act, 1994. The

company commenced its business in Bangladesh as per Certificate of Commencement on the same date. Subsequently the company took license from Bangladesh Bank as a Non-Banking Financial Institution under The Financial Institutions Act, 1993 to operate as a leasing and financing company as provided under the relevant Law.

As on November 30, 2010 company's authorized and paid up capital is Tk. 2,000.00 million and Tk.363.20 million respectively. As on June 30, 2010 shareholders' equity is Tk. 457.32 million. Besides, company's portfolio exposure to the market was Tk. 3,763.32 million as on October 31, 2010.

Company profile:

Objectives: Company's business objectives aims at achieving broad-based exposure with emphasis on the following areas:

To provide capital finance for various small and medium enterprises aiming at poverty alleviation and creating employment opportunities. In case of large finance, the company's policy is to provide finance through syndication with other financial institutions.

To provide lease finance for various agricultural equipment namely tractors, power tillers, power pumps to promote mechanization of agriculture in the country.

To provide lease finance for commercial vehicles particularly buses for urban transportation and inter district communication.

To provide medical equipments, apparatus etc. to enterprising doctors to enable them render improved services to patients.

To assist professionals in research work to obtain various research instruments on easy installment basis.

To promote industrialization of the country by way of participation especially in the BMRE of the existing projects.

To provide lease finance to the fixed income group in-order to enable them to improve their standards of living by using various household durables.

To provide term finance to the clients, in-order to enable them to meet their working capital and or other needs. To invest in the secondary capital market.

(www.ffilbd.com)

Premier Leasing & Finance Limited

1. Historical Background

Premier Leasing & Finance Limited, a third generation financial institution, was registered on September 26, 2001 as a Public Limited Company as Premier Leasing International Limited with authorized capital of TK.400 million and initial paid-up capital of TK.51 million. The company went for public subscription by floating its shares in the capital market in July 2005. Company's issued and fully paid-up capital as on December 31, 2008 stood at TK.344 million.

The company was renamed as Premier Leasing & Finance Limited on September 25, 2007. The company was given license by Bangladesh Bank on February 4, 2002 to operate as a Financial

Institution. All activities of the company are regulated by the Bangladesh Bank as per Financial Institutions Act, 1993.

The company started its operation in the leasing sector in Bangladesh from February 25, 2002 and carrying out its activities by allowing Lease Finance and Term Finance in various sectors, viz. transport, industrial expansion, household durables, office equipment, agricultural equipment industrial machinery and equipment etc.

Dr. Mizanur Rahman Shelley is the founder Chairman of the company. Dr. Shelley had his stints as a teacher in Dhaka University, a member of the erstwhile CSP, a technocrat cabinet minister. He is also the founder Chairman of the Centre for Development Research, Bangladesh (CDRB). Other Sponsors/ Directors of the company are reputed business people and most of them have got considerable investments in Banking & Insurance sectors.

Company profile:

Objectives:

Provides financial assistance for Balancing, Modernization, Replacement and Expansion (BMRE) for product diversification and quality improvement of the existing prospective and profitable industrial units/ enterprises.

Invest in import substitute and export oriented industries on priority basis.

Finance in Small and Medium Enterprises (SME) related to poverty alleviation and creation of employment opportunity.

Provide financial assistance for procurement of machinery and equipment for infrastructure development.

Provide financial assistance to fixed income groups and professionals for procurement of household appliances and other essentials.

Provide financial assistance and support for construction or procurement of apartment/ home, commercial space, shops or other real estate products.

To invest in priority sectors like:

- BMRE of existing industrial units
- Export oriented industries
- Import substitute industries
- Industries based on local raw materials
- Infrastructure development projects
- Power generation
- Pharmaceutical industries
- Hospital, Clinic & Diagnostic centers
- Environment friendly projects
- Small and Medium Enterprises (SME)

(www.premierleasing.com.bd)

Hajj Finance Company Limited

Historical Background

Hajj Finance Company Limited (formerly, Ahsania-Malaysia Hajj Investment and Finance Company Limited) is a Shariah-based non-banking financial institution licenced by Bangladesh Bank under the Financial Institution Act 1993. It obtained its license on 6 September 2006 and commenced business on 2 July 2007. The company follows the model of Malaysia's pilgrims fund and management institution (popularly known as "Tabung Hajj"). It mobilizes deposits from would-be pilgrims and invests its fund in Shariah-based activities. It provides Hajj services. Currently, it has two branches, namely, Principle Branch at 72 Dilkuhsa, Dhaka-1000, Bangladesh (opened since 2 July 2007) and Baitul Mukarram Masjid Complex Branch at 67 Purana Paltan, Dhaka-1000, Bangladesh (opened since 28 February 2009). The company is jointly owned by Global Hajj and Umra International Corporation (49%) and Dhaka Ahsania Mission (51%). Hajj Finance Company Limited is a member of Bangladesh Leasing and Finance Companies Association (BLFCA).

Company profile:

Vision:

To provide means of savings to Bangladeshies and facilitate them to perform Hajj.

To become a premier provider of efficiently organized hassle-free and comfortable Hajj services.

To become an efficient and financially sound service-oriented Hajj savings and management institution.

Mission:

To strive for a continuous service improvement through innovation, application of technologies and quality control.

To ensure Bangladeshies continuously enjoy affordable and hassle-free Hajj services.

To broaden the company's deposit and earning assets.

To improve the company's human resource quality.

To adapt quickly and efficiently to changing operating environment.

Objectives:

Sustainable healthy growth of the company's deposits, assets and profit.

Increase in the number of Bangladeshies performing Hajj.

Minimum non-performing assets.

Good industry rating.

Reasonable reward for shareholders and employees.

(www.amhajjfinance.com)

National Finance Limited:

NFL is a fast-growing leasing and finance company. It is managed by experienced professionals in the financial sector. Its board of directors represents entrepreneurs and professionals with varied experience and expertise. NFL had the highest growth rate among NBFIs in Bangladesh in 2011 National Finance Ltd. is a full fledged Non-Banking Financial Institution (NBFI), regulated by Bangladesh Bank.

NFL believes that Bangladesh is a country of limitless possibilities. We actively scout out promising business ventures in Bangladesh and help them come to fruition. We have a great track-record of financing up-and-coming Bangladeshi entrepreneurs and ventures. Our financing process is pragmatic and covers all risk factors. We do not unnecessarily burden our clients with documentation requirements, yet we take into account all risk factors. The list of NFL's asset products are given below:

- Lease Finance
- Sale-and-Lease-Back
- Term loan
- House building loan (Commercial) & (Residential)
- Overdraft
- Personal Loan

NFL also offers deposit products that are tailored to the needs of the growing middle class of Bangladesh. NFL helps young parents plan for their child's future, helps people plan for retirement, it has products that augment your monthly income. We even help you plan for Hajj. The list of NFL's deposit products are given below:

- Fixed Deposits
- Monthly Income Scheme
- NFL Double Delight
- NFL Triple Crown
- Education Deposit Scheme
- Monthly Pension Scheme
- Hajj Monthly Deposit Scheme
- Monthly Savings Scheme

NFL is one of the fastest growing Non-Banking Financial Institute (NBFI) in Bangladesh now.

The highlights of 2011 results are:

- Lease Portfolio grew by 106%,
- Term Loan Portfolio grew by 113%

- Total assets stood at BDT 169 crores.
- During the same period we also recorded 101% growth in customer deposits.
- Profit-before-taxation grew by 54%.

Head Office: Unique Trade Centre, (level-10), 8, Panthapath, Dhaka-1215.

(www.nfl.com.bd)

People's Leasing and Financial Services Limited (PLFS):

People's Leasing and Financial Services Limited (PLFS) is a financial institution established within the ambit of Financial Institutions Act-1993 and was incorporated as a Public Limited Company under Companies Act-1994 on August 12, 1996. Company obtained license from Bangladesh Bank on November 24, 1997 to carry on lease finance business. Authorized Capital of the Company is Tk. 500 million divided into 5 million ordinary shares of Tk. 100/- each while Paid-up Capital as on September 30, 2004 stands at Tk. 130 million subscribed by the sponsors. Now a days Company become successful and has made a well built base to create its position as a progressive Leasing Company and an individual self in versatile arena of FI of the Country.

Corporate Office

Paramount Heights (12th & 13th Floor)

65/2/1 Box Culvert Road

Purana Paltan, Dhaka-100

Tel: +88 02 7170800, +88 02 7170800,

Fax: +88 02 9562780

Principal Activities:

Debt Products:

Lease Finance

Term Finance

Corporate Real Estate Finance

Real Estate Developer Finance

Home Loans with Home Loan Shield

Home Equity Loans

Car Loans for Individuals

Business Loan

Machinery Loan

Investment Products:

Common Equity Investments

Preferred Equity Investments

Bonds

Liability Product

Term Deposit Schemes

Debentures

Securitized Bonds

Corporate Services:

Project Finance Appraisal

Project Loan Syndication

Syndication Agency Services

Refinancing Arrangement

Corporate Financial Advisory

Securitization of Receivables

Trusteeship Management

Professional Supports to SME

Subsidiaries:

Mercantile Securities Ltd.

Goals and Objectives:

To help create national wealth through Institutional frame work.

To perform financial responsibilities with proper accountability.

To help develop a pro-active approach in the Financial Market.

To develop as a genuine development partner of the entrepreneurs.

To achieve organizational excellence through sound Human Resource Management (HRM).

To develop a mutual cooperation of high quality and strategically balanced portfolio in the Financial Market.

To mobilize various sources of fund for its marketing operations.

PLFS at a Glance:

Company Name	:	People's Leasing And Financial Services Limited
Company Registration No.	:	C-31162 (283)/96, Twelfth day of August 1996
Corporate Head Office	:	Paramount Heights, Level-12 & 13
		65/2/1, Box Culvert Road, Purana Paltan,
		Dhaka-1000, Bangladesh, Tel: 711 0408 & 711 1421
		Fax: 88 02 9562780
		E-mail: email@plfsbd.com
		Website: www.plfsbd.com
Authorized Capital	:	Tk. 300,00,00,000/- (Three hundred crore)
Paid up Capital	:	Tk. 108,92,99,030/-
Board of Directors	:	11
Number of Employee	:	65
Number of shareholders as on :Record Date April 03, 2011	:	32,935
Last AGM held	:	June 17, 2010
Auditor	:	Rahman Mostafa Alam & Co., Chartered Accountant

Key-Milestone:

August 12, 1996	:	Date of incorporatio
August 26, 1996	:	Commencement of Business
November 24, 1997	:	Receipt of License as Non-Banking Financial Institutions under Financial Act, 1993
April 30, 2002	:	Signing of First Lease Agreement
November 4, 2002	:	Participating in first Syndication
October 25, 2004	:	Commencement of Home Loan Finance
July 5, 2005	:	Launching of SME Finance
July 20, 2005	:	Enlistment in DSE Ltd & CSE Ltd
October 30, 2007	:	Establishment of Branch at Gulshan, Dhaka
February 8, 2008	:	Home Loan Commencement under Bangladesh Bank Re-Financing Scheme
July 27, 2010	:	Conversion of face value of Ordinary Share price from Tk. 100/- to Tk. 10/-
October 12, 2010	:	Issuance of Preference Shares

(www.plfsbd.com)

There are five NBFIs in Bangladesh that are not involved in leasing business. These are as follows:

Saudi-Bangladesh Industrial & Agricultural Investment Company Limited

(SABINCO)

Historical Background:

The Saudi-Bangladesh Industrial and Agricultural Investment Company Limited, popularly known as SABINCO, is a Development Financial Institution (DFI) and Investment Company.

It was promoted under dual initiatives of the Government of the Kingdom of Saudi Arabia and the Government of the People's Republic of Bangladesh out of deep-rooted ties and close economic relationship of the two brotherly Muslim nations. The company was established under joint collaboration by a protocol signed between the two governments in 1984 with a view to making investments in the industrial and agro-industrial fields in Bangladesh. SABINCO was floated as a private limited company with the governments of Saudi Arabia and Bangladesh as the two Shareholders. It was incorporated under the Bangladesh Companies Act 1913 on 24th June 1984

with its headquarter at Dhaka. The company commenced operation in 1986. Subsequently, Bangladesh Bank granted license to SABINCO in 1993 under the Financial Institutions Act 1993 to operate as a Non-Banking Financial Institution.

Company Profile:

Vision: To operate as the country's leading Development Financial Institution (DFI) and a major contributor to the national efforts for sustained economic development of our country and improvement in the quality of life of our people.

Mission: Creation of national wealth, entrepreneurship development and employment generation through promotion of productive enterprises.

Objectives: To make investment in manufacturing industries, agro-processing industries, infrastructure projects and utility service industries in Bangladesh on commercial basis through loans, finances and equity participation.

Business Operation:

SABINCO mainly invest in the following sector:

Infrastructure sector: Mobile and Land Phone, Power Generation (IPP).

Industrial Sector: Chemical, Cement, Ceramic, Engineering, Paper, Steel, Pharmaceutical, Textile, Tannery, Leather products.

Agro-Based Sector: Feed mill, Poultry and Fish Hatchery, Fish/Shrimp Culture, Agro processing Industries.

Management of Industrial Enterprises:

SABINCO has six projects under own management including Saudi Bangla Fish Feed Limited, a pioneering fish and poultry supporting industry.

Collaboration with other Financial Institutions:

SABINCO has promoted a number of projects in collaboration with both foreign and local financing institutions. Further co-operation in future is foreseen to facilitate diversifying financing source and mobilizing fund for large scale projects.

Current Business Focus

At present SABINCO is focused to invest in labor intensive/indigenous resource based industries. Moreover, In conformity with the national development priority, SABINCO's current investment strategy focuses on projects in new large/medium scale productive industrial sectors in the following areas:

Infrastructure Sector: Telecommunication, Power generation and distribution, Private ports etc.

Import Substitute Basic Chemical Sector: Sodium Hydroxide, Soda Ash, Calcium Hydroxide, Sulphuric Acid, Potassium Hydroxide, PVC, Fertilizer etc

Export Oriented Sector: Footwear, Furniture, Pharmaceutical, Food processing projects, High value added Textile projects.

Local Raw Material Based Sector: Projects where natural gas is a major production input like Steel, Ceramic, and Agro-Processing projects with modern technology.

(www.sabinco.com.bd)

Delta BRAC Housing Finance Corporation (DBH)

Historical Background

Delta BRAC Housing Finance Corporation (DBH) a public limited company registered on 11 May 1996 under the companies act 1994 with an authorised and paid up capital of Tk 500 million and Tk 200 million respectively. The capital is divided into shares of Tk 100 each. DBH is an international joint venture between three local promoters and two international partners.

The local promoters are two insurance companies, delta life insurance and green delta insurance and brac, a reputed local non-government organization.

The two international partners are HDFC, a pioneer in the area of housing finance in India and IFC (International Finance Corporation). Percentile share of ownership holdings of the DBH are Green Delta Insurance Company 20%, Delta Life Insurance Company 25%, BRAC 25%, IFC 15% and HDFC of India 15%.

Company Profile

Delta Brac Housing Finance Corporation Ltd. (DBH) is the pioneer, largest and specialist in Housing Finance institution in the private sector of the country. After commencing operation in the early 1997, the company has registered commendable growth in creating home ownership among more than 23,000 families in Dhaka and other major cities of the country. At the same time, the company has been playing an active role in promoting the real estate sector to the large cross sections of prospective clients who had but yet unfulfilled dream of owning a sweet home.

Among all Banks and Financial Institutions of Bangladesh only DBH has been rated the highest 'AAA' credit rating. The level of credit rating provides a very important indication of the financial safety, security and strength of the concerned Bank or Financial Institution and is particularly relevant to its depositors and other investors such as shareholders and lenders.

Main Objective

The main objectives of DBH are to provide loans for construction of houses, purchase of flats or houses, extension and improvement of existing houses or flats, and purchase of housing plots. In addition, the company offers various other investment and fixed deposit schemes for both individuals and corporate bodies like a term deposit scheme, a cumulative deposit scheme, a double money deposit scheme, monthly income deposit scheme, and a easy way savings deposit

scheme for its clientele. Through its widespread activities, the company aims to enable the people of Bangladesh to own homes, something which is still a dream for the masses due to unaffordable land price, exorbitant construction costs, and non-availability of housing loans at reasonable interest cost, and the like.

Formation of DBH

DBH is an international joint venture organization promoted by five institutions: three local shareholder organizations and two international partners. The company floated its shares to the general public through IPO in the year 2008.

The local promoters are:

Delta Life Insurance Company Limited: The leading life insurance company in the private sector of the country.

BRAC: The largest national NGO of the world, having deep presence in the country and contributing in the socio-economic development of the country.

Green Delta Insurance Company Limited: The leading and pioneer general insurance company in the private sector of the country.

The international partners consist of the following:

HDFC: A pioneer in the area of private sector housing finance in India and the most successful housing finance institution in the South Asia bring to DBH technological and business expertise making the proper recommendations in relation to products, policies, systems and procedures.

IFC: The private sector arm of the World Bank Group. Both local and foreign shareholders come together with an objective to channel resources into providing finance for the people's basic need for shelter, enhance housing stock of the country and promote affordable home ownership.

(www.deltabrac.com)

Infrastructure Development Company Limited

Historical Background

Infrastructure Development Company Limited (IDCOL) a Non-Bank Financial Institution established in Bangladesh in 1997 as a government owned public limited company to promote participation of the private sector in investment in infrastructure facilities and in operation, ownership and maintenance of them. On 30 June 2001, the authorized and paid up capital of the company was Tk 100 million.

Mission and Values

IDCOL's mission is to promote economic development in Bangladesh by encouraging private sector investment in energy and infrastructure projects. IDCOL's values include:

Global standard and competence: IDCOL is committed to deliver financial services to the clients maintaining global standards and competence;

Transparency and integrity: IDCOL believes in maintaining transparency and integrity in all activities performed by the Company; and

Social responsibility: IDCOL is dedicated to perform as a development financial institution that articulates social responsibility.

Functions Of the Company:

IDCOL provides long-term senior and subordinate debt financing for viable infrastructure projects in the private sector. The company finances projects of power generation, telecommunication, urban environmental services, gas and gas related infrastructure, ports, toll roads, water supply, and other infrastructure development. The company has a preference for build-own-operate and build-operate-transfer type of projects. It finances up to 40% of the total

project costs and to be eligible for its funding support, the project must meet the government's priority criteria.

Business Operation

The company is managed by a 7-member board of directors appointed by the government from amongst senior government officials and prominent entrepreneurs. A team of project-finance advisors of international repute assists the board. An 11-member management team assists the chief executive officer (CEO) of the company in carrying out its day-to-day business.

(www.idcol.org)

Agrani SME Financing Company Limited.

Historical Background

Agrani Bank Limited (the Bank) has been incorporated as a Public Limited Company on May 17, 2007 Vide Certificate of Incorporation # C-66888(4380)/07. The Bank has taken over the business of Agrani Bank (emerged as a Nationalized Commercial Bank in 1972, pursuant to Bangladesh Bank (Nationalization) Order # 1972 (P.O. # 26 of 1972)) on a going concern basis through a Vendor Agreement signed between the Ministry of Finance of the People's Republic of Bangladesh on behalf of Agrani Bank and the Board of Directors on behalf of Agrani Bank Limited on November 15, 2007 with a retrospective effect from July 01, 2007. The Bank's current shareholdings comprise Government of the People's Republic of Bangladesh and other 12 (Twelve) shareholders nominated by the Government. The Bank has 876 branches as on December 31, 2011.

The Bank has four wholly-owned subsidiary Companies named are:

- (a) Agrani Exchange House (Pvt.) Ltd. in Singapore,
- (b) Agrani Remittance House SDN, BHD in Malaysia,

- (c) Agrani Equity and Investment Limited and
- (d) Agrani SME Financing Company Limited.

Bangladesh Infrastructure Finance Fund Limited

Historical Background

Bangladesh Infrastructure Finance Fund Limited (BIFFL) is a newly established public limited company which envisages to attract private investments from local and foreign investors and to invest in companies that are implementing infrastructure projects in Bangladesh. The Government of the People's Republic of Bangladesh has already provided BDT 16 Billion (USD 220 mill) to this company as initial equity capital and has taken 100% ownership of the company.

But it is expected that the company will go for equity offering to the local and foreign private investors and in this process will arrive at a unique ownership mix between Government and private investors. Currently, the Board of Directors of the company is drawn from the public sector.

The Bangladesh Infrastructure Finance Fund Limited, or BIFFL, was incorporated by the Ministry of Finance in 2011 to provide long-term financing in local currency to infrastructure projects that meet BIFFL's investment criteria. BIFFL seeks to attract investment from both institutional and retail investors (including non-resident Bangladeshis and overseas foreign workers) to provide an alternative savings/investment vehicle in the Bangladesh market. BIFFL is managed independently following objective investment criteria.

Company profile:

Vision: Promotion of National Development by leveraging relative strengthening of Public and Private Sector through financing PPP Infrastructure Projects.

Mission: Bangladesh Infrastructure Finance Fund Limited BIFFL's Mission is to perform as a highly dedicated Financial Institution of Bangladesh in a professional manner by adopting best international standards maintaining high standard of integrity and ethics at all levels of management;

to promote Country's economic development by facilitating and encouraging Private Sector Investment in all infrastructural projects; and

to support sustainable economic growth of Bangladesh through facilitating Infrastructure Development;

Objectives:

The main objective of BIFFL is:

To provide predominantly long-term financing for PPP projects through issuance of bonds and debt instruments and equity offerings. BIFFL envisages attracting private investments from local & foreign investors and to invest companies that are implementing infrastructure projects in Bangladesh.

The Primary Objectives of BIFFL are:

To receive and accept from Gov and/or any other foreign or local source including official or semi-official development sources –

funds and moneys by way of loans, debts, debt backed by sovereign guarantees;

bond specially designed for non-resident Bangladeshis, sub-sovereign debt, equity, preference shares or any other quasy-equity instruments,

development of Limited Partner (LP)

(www.biffl.org.bd)

- 2) Why most of the borrowers prefer leasing from leasing companies than leasing from banks?
- 3) What should be the bank's strategy in leasing business to compete with leasing business of leasing companies?

Head of SME/ Head of credit/ Head of risk management or internal control of Bank.

Questionnaires for the Lending Institutional Survey: (OB - 01)

- 1) Why the competition between banks and leasing companies are increasing?
[Open ended question]
- 2) What are the problems of leasing companies to compete with banks?
[Open ended question]
- 3) What are the challenges faced by leasing companies in general in Bangladesh?
[Open ended question]
- 4) Why some of the borrowers prefer leasing over term financing? (OB-3)

6) How leasing companies reduce the transaction cost?

(Questions for the key informants interviews of leasing companies): (OB-3) (M.D/ D.M.D)

- 1) Why some of the borrowers prefer leasing over term financing?

- 2) Why most of the borrowers prefer leasing from leasing companies than leasing from banks?

Questions for the Key Informants of leasing companies: (OB - 01) (M.D/ D.M.D)

- 1) What are the reasons behind the absence of operating lease in Bangladesh?
[Open Ended Question]

- 2) What are the future prospects of operating lease in Bangladesh?
[Open Ended Question]

Head of SME/ Head of credit/ Head of risk management or internal control of Leasing Company

Questionnaires for the Lending Institutional Survey: (OB - 01)

- 1) Why the competition between banks and leasing companies are increasing?
[Open ended question]

- 2) What are the problems of leasing companies to compete with banks?
[Open ended question]

- 3) What are the challenges faced by leasing companies in general in Bangladesh?
[Open ended question]

- 4) Why some of the borrowers prefer leasing over term financing? (OB-3)

Name of the firm.....

(Question to M.D of 50 firms which have taken lease financing) - (OB-02).

- 1) Why a firms use lease financing in its capital structure?

Questionnaires for Factor Analysis: (OB-3)

300 firms which have taken lease from the leasing companies (15 leasing companies'×20 firms) + 105 firms which have taken lease from banks (15 Banks×7 firms).] = Total of 405 firms.

- 1) Collateral is not needed in case of lease financing. In order to take decision in favor of Lease financing the provision of collateral is an important factor.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 2) The time of loan repayment is usually larger than the time of lease repayment for equal amount of borrowing of loan and lease. It is favorable for the lessee.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 3) E.M.I (Equal Monthly Installment) has made the lessee to repay the money easily because of the fixed amount of payment regularly. E.M.I- has increased the popularity of lease financing over term loan.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 4) Generally, the grace period of lease is longer than the grace period of loan for the same amount of borrowing from loan and lease. The longer grace period will be considered as a determining factor for the selection of lease financing.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 5) In case of term financing, in addition to primary, secondary security is required to support the equity investment. In lease financing, it is not required. It is a factor which determines the choice of lease financing.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 6) Third party guarantee is not required in leasing. It is favorable for the preference of lease over term financing.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 7) Lack of funds forces user to choose lease financing to term financing.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.

- 8) The service for lease financing is generally faster than term financing. Duration of time is one of the factors for the preference of lease financing over term loan.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 9) The procedural complexity for lease financing is less than term financing. Less procedural complexity has made lease financing popular than term financing.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 10) Fewer documentation and submission of documents in one package help lease finance to become popular than term financing.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 11) A lease avoids many of the restrictive covenants that are normally included as part of long Term loan (minimum liquidity, subsequent borrowing, cash dividend payment etc.) This determining factor to select lease financing over term financing.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 12) Lease financing for low cost assets is popular than term financing. Do you agree?
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 13) Sale and lease back arrangements permit the firm to increase its liquidity by converting an existing asset into cash which can then be used as working capital. This can be advantageous for a firm that is short of working capital or a liquidity bind. Lease financing is advantageous in this connection.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 14) Leasing provides 100% financing. Most loan agreements for the purpose of fixed assets require the borrower to pay a portion of the purchase price as a down payment. It is favorable for lease borrower.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 15) The interest cost of lease financing is relatively high than term financing. The interest cost of lease is a determinant factor for the selection of lease financing over term financing.
 - a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.

- 16) Because it is much easier for borrowers to accommodate their own financing in bank financing as compared to lease financing.
- a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 17) A lease does not have a stated interest cost. Thus, in many leases the return to the lessor is quite high, so the firm might be better off borrowing to purchase the asset. (Cost of lease/ Return to the lessor.).
- a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 18) At the end of the lease agreement, the salvage value of an asset, if any, is realized by the lessor. This is not favorable for the lessee.
- a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.
- 19) Under a lease, the lessee is generally prohibited from making improvements on the leased property or asset without the approval of the lessor. For this reason some of the borrowers prefer term financing than lease financing.
- a. Strongly Agree b. Agree c. Neutral d. Disagree e. Strongly Disagree.

The following Data have been used for Data Envelopment Analysis of 17 Leasing Companies for the period of 6 Years:

Company	Year	Interest Revenue (Million Taka)	Non-Interest Revenue (Million Taka)	Interest Expenses (Million Taka)	Salary and Allowances (Million Taka)	Depreciation (Million Taka)	Deposit & Borrowing (Million Taka)	No. of Employee	Fixed Assets (Million Taka)	Price of dep	Price of Emp	Price of FA
IDLC	2006	1149.00	82.44	777.93	103.69	20.81	8072.48	185	166.43	0.096368155	0.560486486	0.1250376
IDLC	2007	1526.41	182.84	1084.26	139.51	27.33	10981.43	203	164.00	0.098735775	0.687241379	0.1666463
IDLC	2008	1735.35	236.38	1229.30	181.74	30.95	12035.49	249	164.91	0.102139589	0.729879518	0.1876781
IDLC	2009	2561.50	604.62	1619.15	212.92	51.66	16388.95	290	188.54	0.098795225	0.734206897	0.2740002
IDLC	2010	3047.39	936.44	1817.84	346.75	59.62	17658.32	385	236.73	0.102945241	0.900649351	0.2518481
IDLC	2011	3826.54	575.38	2359.23	333.05	70.20	22204.67	429	259.71	0.106249271	0.776340326	0.2703015
Bay Leasing	2006	432.00	31.00	240.00	3.50	58.45	1853.00	22	167.00	0.129519698	0.159090909	0.35
Bay Leasing	2007	305.00	11.00	294.00	4.20	66.15	2388.00	26	189.00	0.123115578	0.161538462	0.35
Bay Leasing	2008	414.25	77.86	408.57	6.57	2.04	3300.40	40	193.55	0.123794086	0.16425	0.0105399
Bay Leasing	2009	485.09	120.83	412.57	7.51	2.25	4118.02	46	384.17	0.100186497	0.16326087	0.0058568
Bay Leasing	2010	430.37	701.22	393.30	13.70	2.46	3550.73	84	404.17	0.110765955	0.163095238	0.0060865
Bay Leasing	2011	459.50	116.52	342.77	14.39	5.65	3036.49	88	779.23	0.112883626	0.163522727	0.0072507
BFIC	2006	149.39	110.27	184.47	10.49	1.38	1228.15	27	9.16	0.150201523	0.388360137	0.1502015
BFIC	2007	130.07	246.83	221.14	13.32	4.49	1427.34	34	10.50	0.154931551	0.391764706	0.427619
BFIC	2008	211.14	166.51	256.31	13.00	4.74	2030.76	39	10.12	0.126213831	0.333333333	0.4683794
BFIC	2009	316.95	80.20	242.14	12.44	6.25	1999.35	43	63.35	0.121109361	0.289302326	0.0986582
BFIC	2010	404.37	338.41	298.64	18.03	6.88	2990.58	46	200.67	0.099860228	0.391956522	0.0342851
BFIC	2011	469.31	64.79	438.36	17.78	5.95	3672.98	60	197.51	0.119347233	0.296333333	0.0301251
BIFC	2006	312.32	41.93	232.42	8.56	2.32	1000.40	14	41.88	0.232327069	0.611428571	0.0553964
BIFC	2007	317.32	86.50	252.88	11.48	2.61	1203.01	19	39.48	0.210206066	0.604210526	0.0661094
BIFC	2008	317.32	96.27	342.08	24.65	4.17	2090.98	40	47.40	0.16359793	0.61625	0.0879747
BIFC	2009	547.61	139.24	459.72	27.57	2.65	4119.14	45	52.91	0.111605821	0.612666667	0.0500851
BIFC	2010	653.38	304.69	539.99	40.09	1.68	5187.20	65	57.38	0.104100478	0.616769231	0.0292417
BIFC	2011	1042.85	39.10	815.67	35.01	3.72	6065.37	65	54.53	0.134479842	0.538615385	0.0682666
Fidelity	2006	45.90	4.86	12.06	1.92	4.16	215.67	34	8.25	0.055918765	0.05636954	0.5045102
Fidelity	2007	106.85	21.35	12.03	5.34	7.69	365.60	34	16.52	0.032904814	0.157058824	0.4656345

Fidelity	2008	147.47	27.65	61.58	8.32	23.70	626.41	44	23.32	0.098306221	0.189090909	1.0164013
Fidelity	2009	181.07	64.76	74.62	9.18	3.14	587.55	53	85.02	0.127001957	0.173295929	0.0369325
Fidelity	2010	173.66	187.34	99.88	8.94	2.79	1062.41	53	399.62	0.09401305	0.168612255	0.0069816
Fidelity	2011	340.67	71.06	199.25	11.38	7.29	935.79	66	364.64	0.212918497	0.172385215	0.02
First_Lease	2006	158.90	141.05	70.31	3.02	7.23	470.46		3.11	0.149439482	#DIV/0!	2.3232648
First_Lease	2007	158.09	68.58	96.18	3.47	1.68	470.70		6.45	0.204333971	#DIV/0!	0.2601381
First_Lease	2008	236.86	13.18	85.60	4.93	3.72	384.07		14.31	0.222876038	#DIV/0!	0.2601381
First_Lease	2009	213.22	32.47	76.75	6.41	4.16	257.61		16.00	0.297930981	#DIV/0!	0.2601381
First_Lease	2010	269.50	44.97	106.37	9.43	7.69	646.51		29.57	0.164529551	#DIV/0!	0.2601381
First_Lease	2011	325.26	52.01	169.00	11.03	23.70	1016.36		91.12	0.166283271	#DIV/0!	0.2601381
Int_Lease	2006	790.39	51.85	662.46	1.47	3.14	3400.12	3	7.24	0.1948343	0.488613861	0.4337017
Int_Lease	2007	908.65	126.65	757.74	2.04	2.79	3861.03	4	5.44	0.196253331	0.509117162	0.5128676
Int_Lease	2008	1225.57	119.30	1037.39	2.45	3.51	4846.89	4	18.83	0.214032091	0.6125	0.1864047
Int_Lease	2009	1369.53	237.70	1205.14	9.57	6.37	11391.69	15	26.63	0.105791151	0.638	0.2392039
Int_Lease	2010	1525.00	748.38	1295.64	35.43	9.27	12964.57	56	49.76	0.099936982	0.632678571	0.1862942
Int_Lease	2011	1823.78	240.19	1733.27	48.99	9.54	12333.86	56	17.09	0.140529404	0.874821429	0.5582212
IPDC	2006	782.32	159.53	766.78	35.95	9.94	1302.56	49	101.37	0.588671539	0.733673469	0.0980566
IPDC	2007	695.51	21.97	508.64	38.56	12.93	1745.35	43	120.37	0.291425789	0.896744186	0.1074188
IPDC	2008	631.73	70.34	457.16	32.79	16.35	3431.95	46	81.08	0.133207069	0.712826087	0.2016527
IPDC	2009	545.29	112.82	360.22	34.70	15.61	3112.05	48	73.57	0.115750068	0.722916667	0.2121789
IPDC	2010	465.26	181.47	298.53	52.80	17.53	3304.70	73	80.69	0.090334977	0.723287671	0.2172512
IPDC	2011	554.45	142.74	431.52	60.92	19.42	3902.26	82	81.02	0.110582073	0.742926829	0.2396939
Islamic Fin	2006	250.67	92.48	160.41	13.79	1.82	606.09	36	17.83	0.264664537	0.383055556	0.1021038
Islamic Fin	2007	291.89	101.74	198.57	16.55	3.09	880.24	54	19.83	0.225585435	0.306481481	0.1558638
Islamic Fin	2008	345.04	128.85	252.80	20.83	4.44	2219.69	68	24.95	0.113889777	0.306323529	0.1779559
Islamic Fin	2009	412.88	191.00	295.92	31.73	5.43	2729.87	70	24.22	0.108400766	0.453285714	0.2241949
Islamic Fin	2010	444.40	172.66	314.56	42.10	5.51	3117.71	82	25.00	0.100894567	0.513414634	0.2204
Islamic Fin	2011	528.32	95.75	356.67	53.07	5.63	3411.67	100	109.13	0.104544109	0.5307	0.0515898
Lanka_bangla	2006	197.77	120.40	148.92	24.12	15.80	2106.98	65	20.76	0.070679361	0.371076923	0.761079
Lanka_bangla	2007	400.88	173.52	325.14	36.47	0.47	4217.34	161	32.55	0.077095989	0.226521739	0.0144393

Lanka_bangla	2008	568.71	231.70	522.41	44.24	2.06	5812.44	205	36.00	0.089877917	0.215804878	0.0572222
Lanka_bangla	2009	786.66	433.58	655.53	69.31	15.56	9189.43	205	38.94	0.071335219	0.338097561	0.3995891
Lanka_bangla	2010	828.48	328.77	489.97	100.57	19.70	10576.82	206	38.94	0.046324888	0.488203883	0.5059065
Lanka_bangla	2011	1572.56	637.94	1403.29	107.52	16.15	12436.84	141	30.07	0.112833324	0.762553191	0.5370801
Midas Fin	2006	126.12	10.30	47.92	15.60	1.25	676.43	83	15.47	0.070836179	0.187927711	0.0805222
Midas Fin	2007	166.67	24.88	61.09	17.12	0.98	862.81	83	64.16	0.070798737	0.206204819	0.0152734
Midas Fin	2008	240.22	98.11	123.33	20.93	1.65	1521.84	83	87.04	0.081038583	0.252192771	0.0189789
Midas Fin	2009	131.47	62.94	77.36	17.28	0.76	1910.61	80	108.44	0.040489163	0.21605	0.0070087
Midas Fin	2010	367.04	146.84	187.52	20.26	0.80	3065.59	81	114.15	0.061169302	0.250085805	0.0070087
Midas Fin	2011	385.56	192.56	205.36	21.97	1.07	5449.32	81	153.28	0.037685408	0.271276844	0.0070087
Peoples Leasing	2006	300.44	57.41	161.93	10.07	1.31	2222.00	34	7.48	0.072875788	0.296176471	0.1751337
Peoples Leasing	2007	469.00	33.00	231.51	15.46	2.10	2851.00	18	12.00	0.081203087	0.858888889	0.1751337
Peoples Leasing	2008	581.24	111.32	280.53	21.93	4.67	4168.70	25	63.95	0.06729436	0.8772	0.0730258
Peoples Leasing	2009	783.80	225.50	411.67	34.96	9.45	6060.98	57	71.30	0.067921359	0.613333333	0.1325386
Peoples Leasing	2010	1207.65	797.21	619.25	54.69	9.99	9109.63	63	68.16	0.067977514	0.868095238	0.1465669
Peoples Leasing	2011	1727.66	259.25	961.07	57.35	8.51	9356.14	66	63.39	0.102720769	0.868954545	0.1341715
Phoenix	2006	717.55	25.54	521.25	24.55	15.91	3982.18	75	121.56	0.13089564	0.327287098	0.1308956
Phoenix	2007	810.22	85.16	607.82	32.12	18.23	5090.28	98	260.71	0.11940797	0.327755102	0.0699244
Phoenix	2008	979.58	112.32	731.07	40.96	24.11	6052.16	125	214.26	0.12079489	0.32768	0.1125268
Phoenix	2009	1110.34	221.21	853.79	40.96	38.46	6588.22	125	199.40	0.129593426	0.32768	0.19288
Phoenix	2010	1137.55	579.65	960.86	59.66	165.47	5045.63	175	857.90	0.190434098	0.340926399	0.19288
Phoenix	2011	1364.49	187.05	1182.50	112.29	163.93	1826.01	330	849.90	0.647584979	0.340275758	0.19288
Premier Leasing	2006	177.06	72.34	148.12	8.68	3.61	1350.30	16	4.30	0.109694142	0.5425	0.8397404
Premier Leasing	2007	296.23	80.84	228.27	13.30	2.95	1974.58	25	9.08	0.115604331	0.532099408	0.3254098
Premier Leasing	2008	918.70	167.18	382.59	14.71	9.02	3256.99	27	7.43	0.117467355	0.544910246	1.2139957
Premier Leasing	2009	994.83	783.50	416.60	20.20	9.10	3673.69	37	171.18	0.113400967	0.545945946	0.0531604
Premier Leasing	2010	1010.55	1885.46	443.84	34.18	6.34	3818.32	63	183.92	0.116239603	0.5425	0.0344715
Premier Leasing	2011	1091.97	724.61	484.68	35.50	6.34	8334.76	63	323.78	0.058151644	0.563492063	0.0195812
Prime Finance	2006	378.67	70.01	258.33	25	6.29	2364.09	20	17.90	0.10927249	1.2495	0.3513966
Prime Finance	2007	427.23	297.19	382.05	29.02	5.49	2882.37	20	14.86	0.132547175	1.451	0.3694482

Prime Finance	2008	496.55	323.07	358.96	48.95	6.41	3884.43	24	14.21	0.092409955	2.039583333	0.4510908
Prime Finance	2009	641.87	783.50	519.12	63.44	9.02	7359.40	63	321.63	0.070538359	1.006984127	0.0280446
Prime Finance	2010	1183.74	1885.46	809.41	86.32	9.01	7405.77	67	323.62	0.10929451	1.288358209	0.0278413
Prime Finance	2011	1091.97	724.61	1012.72	103.69	6.34	8334.76	66	323.78	0.121505598	1.571060606	0.0195812
Union Capital	2006	174.97	33.57	129.48	10.82	1.74	995.59	28	7.48	0.130053536	0.386343344	0.2331002
Union Capital	2007	245.10	109.56	178.43	12.05	2.00	2141.60	32	8.58	0.083316212	0.3765625	0.2331002
Union Capital	2008	348.88	168.28	254.03	18.04	3.62	2843.42	47	12.80	0.089339598	0.383829787	0.2828125
Union Capital	2009	543.13	301.56	423.70	40.37	6.22	4455.76	100	16.96	0.0950904	0.4037	0.3667453
Union Capital	2010	724.38	890.31	487.82	55.04	8.12	4947.10	137	24.11	0.098607265	0.401751825	0.3367897
Union Capital	2011	968.96	208.11	613.27	38.87	12.55	6229.11	98	28.03	0.098452267	0.396632653	0.4477346
United Leasing	2006	707.90	31.34	469.58	37.63	5.14	4290.00	88	19.92	0.109459207	0.427613636	0.2580321
United Leasing	2007	889.16	41.47	576.32	47.61	6.06	5873.66	99	20.30	0.098119401	0.480909091	0.2985222
United Leasing	2008	1121.06	24.20	726.35	58.15	21.37	6167.81	139	36.59	0.117764652	0.418345324	0.5840394
United Leasing	2009	1106.35	26.91	685.92	75.36	21.67	5956.24	127	36.69	0.1151599	0.593385827	0.5906241
United Leasing	2010	1140.30	44.08	594.34	98.73	23.46	5871.95	175	42.83	0.101216802	0.564171429	0.5477469
United Leasing	2011	1166.50	79.78	613.19	126.52	35.80	6625.61	240	77.49	0.09254846	0.527166667	0.4619951
Uttara Fiance	2006	789.26	90.79	539.41	26.36	3.03	5214.66	74	45.08	0.103441068	0.356216216	0.0672138
Uttara Fiance	2007	1253.06	64.26	973.09	28.20	3.05	1681.58	79	45.44	0.578676007	0.356962025	0.0672138
Uttara Fiance	2008	1325.09	59.15	970.20	29.50	3.18	1692.29	79	47.36	0.573305994	0.373417722	0.0672138
Uttara Fiance	2009	1413.34	140.15	953.66	38.54	10.17	7719.56	91	162.63	0.123538129	0.423516484	0.0625346
Uttara Fiance	2010	1417.00	318.36	1069.36	48.86	16.25	9202.77	112	177.67	0.116199796	0.43625	0.0914617
Uttara Fiance	2011	2085.24	423.69	1372.98	56.90	15.52	8887.02	148	172.80	0.154492732	0.384459459	0.0898148

The prices of inputs are Interest expense/Deposits and Borrowings (Price of Deposits), Salary and Allowance/Number of Employees (Price of Employees) and Depreciation/Fixed Assets (Price of Fixed Assets). All the input and output data have been collected from published annual reports from 2006 to 2011.