An Internship Report on "Analyzing the Impact of Non-Performing Loan on Profitability: A Study On Janata Bank PLC"

SUBMITTED TO

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Subject: Submission of Internship Report on **"Analyzing the Impact of Non Performing Loan on Profitability: A Study on Janata Bank PLC"**

Dear Madam,

With due respect, I would like to inform you that, it is a privilege and great pleasure for me to submit the Internship report on **"Analyzing the Impact of Non Performing Loan Profitability: A Study on Janata Bank PLC"**as a requirement for the completion of M.B.A program under Department of Finance & Banking, Comilla University. I have completed my 3 months long internship at Janata Bank PLC, Monohorpur Branch, Cumilla, under your supervision. During the preparation of the report, I have tried my best to make full use of my capabilities in making the report meaningful and worthwhile. I believe the report will at least give you a brief picture about the topic which will also showcase that I have acquired the valuable experiences through this internship under your astute supervision. I earnestly thank you for your guidance during the preparation of this report. Please consider all mistakes and shortcomings as a result of human limitation. I shall be highly glad if you kindly receive this report and provide your valuable judgement. It would really be my immense pleasure if you find this report useful and informative.

Yours Sincerely,

Mukta Akter

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Session: 2022-2023

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Acknowledgement

First of all I would like to categorical my gratitude to the Almighty Allah. This is my pleasure that I could successfully complete my internship report by the grace of almighty Allah. I want to convey my heartfelt respect and cordial thanks to Sutapa Chowdhury, Assistant Professor, Department of Finance and Banking, Comilla University for his encouragement, guidance, advices and valuable supervision. I am very lucky for getting the opportunity to prepare this report under her supervision and guidance. Without her instruction it was impossible for me to complete this report successfully. It is not my own credit in this effort. I would like to extend my-sincere regards and gratitude to my honorable teachers whose kind's guidance and assistance enable me to complete my MBA program and to develop my career through their invaluable teaching. Finally, I want to thanks Md. Khurshed Alam, AGM of Monohorpur Branch Cumilla for his regular support, coaching and supervision for getting ready. And last but not the least, I would like to thank all the personnel working at Janata Bank Limited, Monohorpur Branch. They made the environment congenial and favorable for me to recognize the tasks. Without their help and co-operation, this record would possibly no put together remaining report. I hope that it will help me in my future expert work. Moreover, I like to thanks all people who used to be helped me for preparing this report.

Student's Declaration

I am Mukta Akter, the student of Finance & Banking (6th Batch), MBA (13th Batch) bearing ID: 22317031 hereby declare that the Internship Report entitled- "Analyzing the Impact of NPL on Profitability: A Study on Janata Bank PLC" is uniquely prepared by me from my three months internship experience with Janata Bank PLC, Monohorpur Branch, Cumilla. I also confirm that, the report is only prepared for my academic requirement not for other purpose and not submitted this report any other place before it. I hereby warrant that the work I have presented does not breach any existing copyright. I further undertake to indemnify against any loss or damage from breach of the foregoing obligation.

Mukta Akter

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Session: 2022-2023

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Supervisor Certificate

This is to certify that Mukta Akter, ID: 22317031 is a student of Department of Finance & Banking, Comilla University, has successfully completed her “Internship Program” and report entitled “Analyzing the Impact of Non Performing Loan on Profitability: A Study on Janata Bank PLC” under my supervision as a partial fulfillment of the requirement of Master’s of Business Administration (MBA) Degree from Comilla University, Cumilla. The Report has been prepared and carried out under my guidance and supervision, is a record of the authentic work which is carried out successfully. I think this program will help her in the future to build up her career. She is permitted to submit the Report. I wish her success and prosperity.

Sutapa Chowdhury

Assistant Professor

Department of Finance & Banking

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Executive Summary

Janata Bank PLC is one of the largest state owned commercial bank in Bangladesh. Janata Bank PLC operates over 900 branches across all 64 districts of Bangladesh, making it one of the most accessible banks in the country. This widespread network ensures that customers in both urban and rural areas can access banking services easily. The bank also has a presence in the United Arab Emirates, catering to the Bangladeshi diaspora. This extensive reach is a major advantage for customers needing consistent service across different regions, though the sheer size of the network can sometimes mean variability in branch facilities and service levels. Within Dhaka, Janata Bank has over 100 branches, including key locations like Farmgate, Uttara Model Town, Topkhana Road, and Motijheel. This dense coverage in the capital city ensures that individuals and businesses have multiple options for convenient banking. The advantage here is proximity and choice, though some central branches may experience higher customer traffic, potentially affecting wait times. In this report, I have given ratio analysis of Janata Bank Limited. I have used financial ratio like NPL Ratio, Loan to Deposit Ratio, Debt to Asset Ratio, Capital Adequacy Ratio to analyzed Profitability of the bank. Without this I have also mentioned others side of the Bank like (Products, Service and Social responsibility). In the last chapter of the report, finding and recommendations were given to improve the financial performance of the bank.

Contents

Chapter: One

Introduction

1.1 Introduction

The banking industry is widely recognized as a key driver of a nation's economic development. Its crucial function in supplying financial resources to various businesses establishes it as a fundamental pillar of the economy. By offering capital to different sectors, banks significantly contribute to both economic growth and stability. Public sector banks, in particular, enjoy a high degree of public confidence due to the majority of their ownership being held by the government (Sari, Septiano et al. 2020)

A well-developed banking sector plays a crucial role in reducing financial crises and providing a stable foundation for strengthening a country's economic system. The banking industry holds significant importance in the financial operations and overall progress of any nation. There are several types of banks, including central banks, commercial banks, savings banks, investment banks, industrial banks, and cooperative banks. The performance of banks is evaluated through both quantitative and qualitative assessments. Quantitative evaluation involves analyzing factors such as capital, asset quality, management, earnings, liquidity, and sensitivity to market risk. This includes reviewing the bank's current status, growth, and projected financial ratios. On the other hand, qualitative evaluation focuses on aspects that support the quantitative results, including the bank's risk management practices and regulatory compliance (Sofyan and Research 2019)

In addition to the increasing variety of financial instruments, advances in technology, and the growing interconnectedness among financial institutions, maintaining the stability of the banking sector has become a vital objective of economic policy in every nation (Saksonova and sciences 2014)

Analyzing financial statements of banks presents distinct challenges compared to those of manufacturing or service firms due to the unique nature of banking operations and risks. Banks primarily operate by accepting deposits and paying interest on certain accounts, which requires a specialized approach to evaluate their financial reports effectively. Given the extensive regulation governing the banking industry worldwide, analysts generally have confidence in the sector's overall stability. This regulatory environment allows analysts to focus more on forecasting how banks might perform under different economic scenarios rather than merely assessing their basic financial soundness.

1.2 Background of the Study:

Internships are important to the business administration postgraduate degree and they help students blend theory with practice by providing relevant industry exposure. Such programs assist students in appreciating contemporary commercial challenges while simultaneously developing problem-solving competencies through many analytical and statistical techniques. As part of the obligations for the MBA degree offered by the Comilla University, learners need to undergo practical training in a well-known corporate entity which is accompanied by a comprehensive report. This document is based on my practical experience for three months under the instruction of Assistant Professor Sutapa Chowdhury of the Comilla University. The report focuses on the influence of non-performing loans on a bank's profitability, with a specific case study of Janata Bank PLC.

1.3 Problem Statement:

This research is concerned with investigating the impact of non-performing loans on the profitability of Janata Bank PLC, one of the foremost banks in the country. The primary objective is to determine the linkage between Return on Equity (ROE) which is the dependent variable, and the Non-Performing Loan Ratio, Net Interest Margin, Loan-to-Deposit Ratio, Debt-to-Asset Ratio, and Capital Adequacy Ratio which are the independent variables. This study intends to find out crucial factors that affect the profitability of the bank by analyzing these factors. The research findings are expected to assist in enhancing the level of decision making, risk management, and strategic plans made by Janata Bank and other players in the financial industry.

1.4 Research Gap:

Despite extensive research on how non-performing loans (NPLs) affect bank profitability, measured by return on equity (ROE), several important gaps remain. Most existing studies primarily examine the direct link between NPL ratios and ROE, often overlooking the simultaneous influence of other critical financial indicators such as net interest margin (NIM), loan-to-deposit ratio (LDR), debt-to-asset ratio, and capital adequacy ratio (CAR). Moreover, the results regarding these variables' effects vary across different geographic regions and banking contexts, highlighting the necessity for more localized and context-specific investigations. Another underexplored area is the potential interaction or moderating effects among these variables on the relationship between NPLs and profitability. From a methodological perspective, many studies rely on basic regression techniques without adequately addressing econometric challenges like endogeneity or heteroscedasticity, which may compromise the accuracy of their findings. Additionally, there is a lack of recent empirical research incorporating data from the post-pandemic period and considering the impact of evolving regulatory frameworks. Addressing these shortcomings through comprehensive, multi-variable analyses that use robust econometric methods and updated datasets would significantly improve the understanding of the complex factors shaping bank profitability.

1.5 Research Questions:

- How does the non-performing loan (NPL) ratio affect the return on equity (ROE) of banks?
- What is the impact of Net Interest Margin (NIM) on bank profitability measured by ROE?
- To what extent do Loan to Deposit Ratio (LDR), Debt to Asset Ratio, and Capital Adequacy Ratio (CAR) influence ROE in the banking sector?
- How do NPL and other financial ratios (NIM, LDR, Debt to Asset Ratio, CAR) collectively reflect the profitability of banks?
- Are there any moderating or mediating effects among these financial variables in determining bank profitability?
- How do contextual factors (such as regulatory environment or economic conditions) influence the relationship between NPL and ROE?

1.6 Objectives of the Research:

The general objective of this report is to analyze the impact of non-performing loans on the profitability of Janata Bank PLC.

This report contains few Specific objectives are as follows:

1. For measuring the impact of the non-performing loan (NPL) ratio on the return on equity (ROE) of banks.
2. To explore the effect of Net Interest Margin (NIM) on bank profitability measured by ROE.
3. To investigate the influence of Loan to Deposit Ratio (LDR), Debt to Asset Ratio, and Capital Adequacy Ratio (CAR) on the ROE of banks.
4. To assess the combined effect of the NPL ratio and other financial ratios (NIM, LDR, Debt to Asset Ratio, CAR) on bank profitability.
5. To explore potential interactions or moderating effects among NPL and other financial variables in determining bank profitability.
6. To provide insights and recommendations for improving bank performance arising from the findings.

Chapter: Two
Literature Review

2.1 Literature Review:

The banking sector in Bangladesh is currently facing a severe challenge due to the high volume of non-performing loans (NPLs), which constitute a significant portion of the total classified loans. The issue has been escalating, particularly due to widespread loan misappropriation among industrial borrowers. This persistent problem acts as a warning sign for the industry, with commercial banks bearing the brunt of the crisis. Recent data reveals that NPLs have surged to alarming levels, reaching over 20 percent of total outstanding loans by the end of 2024, with state-owned banks experiencing particularly high default rates. The increasing trend of bad loans not only undermines the financial health of banks but also restricts their lending capacity, posing a serious threat to the overall economic stability of the country (Akter, Roy et al. 2017)

Profitability is the common measure that refers to the ability of an entity to earn profit. The profitability of that entity is the ultimate result of the policies, along with so many decisions made by the bank itself. Profitability is calculated as the main measurement that affects the major success of a business and shows how perfectly the business used its resources. The financial term profitability is a complicated word, originating from the two words "profit and ability. Every word has its meaning that contributes to the main one. Ability means the earning power, or in other cases, the operating result of the concerned investment. The meaning of profitability can be separated from the meaning of the composing words, which is defined as the ability to achieve the output from a given investment. In other hands, the profitability may also be defined as the capacity of the bank to generate income that exceeds the costs (Tulsian and Finance 2014)

Government-owned commercial banks in Bangladesh have faced calamity loan scams over the last decade. The regular loan scams have made their activities questionable. For that reason, non-performing loans must get proper concern and supervision to minimize the occurrence of loan scams (Anik, Das et al. 2019)

(Patwary, Tasneem et al. 2019)said that the bank’s lending policy has a major impact on NPL. Before the lending decision, banks need to measure the probability of default along with cost and benefit measurements.

Although there have been emendations in the banking sector to confirm effective financial institutions, the banks shareholders funds have been reflected by the non-performing loans. The first results ensured that there is no relationship between the non-performing loans (NPL) and return on assets (ROA) of Nigerian banks. This means that the asset values of the firm are not affected by the level of NPL (Adebisi, Matthew et al. 2015)

The result of NPLs between banks' profitability and lending behavior is that an increase in NPLs can lead to many provisions, lower profitability, and unusual decay in bank capital. This can cause negative results on further lending. The subject draws a considerable degree of attention according to the stage of the business period and banks' certain characteristics (Le 2016)

The loans that are in default or almost in default that are identified by the borrower's inability to make regular payments for a fixed period of time—normally 90 days or more—can be called non-performing loans, or NPLs. The rate of NPLs to total loans is an important measure of a bank's asset quality and overall financial health (Bholat, Lastra et al. 2016)

Research by (Alexiou and Sofoklis 2009)measures the impacts of bank-specific and macroeconomic determinants of banking performance; they use an exploratory framework for organizing the so-called Structure Conduct Performance (SCP) hypothesis. The panel data approach passed and was perfectly applied to six Greek banks. The result ensures that the bank- specific determinants reflected bank performance.

(Khemraj and Pasha 2009) told that the bigger amount of NPLs can be related to banks' profitability, specifically in growing economies, where NPLs harshly reflect potential financial positions of banks.

According to (Veizi, Çelo et al. 2024) the capital adequacy ratio (CAR) bears an insignificantly negative relationship with NPLs. However, the total loan and the interest margin are positively associated with NPLs.

(Stiglitz and Weiss 1981)find out that even at the break-even point , credit rationing will exist in a loan market. Credit rationing can be defined as occurring when (a) among loan applicants who appear identical, some do and some do not receive loans, even though the rejected applicants would pay higher interest rates; or (b) there are groups who, with a given credit supply, cannot obtain loans at any rate, even though with a larger credit supply they would.

The internal and external economic environments can be considered as drivers for nonperforming loans (Warue and Economics 2013). An NPL is a loan where the borrower is unable to pay the installments on the principal (original amount) and interest—it is perfectly in default.

NPL can lower the profitability for banks? The relationship between NPLs and profitability is one of the major subjects in banking studies because of the crucial implications for regulatory policies. Many researchers found that failing banks tend to have lower profitability and high ratios of NPL (Berger and Humphrey 1992)

(Andries 2011) analyzed the relationship between profitability and NPL for the Central and Eastern European banking sector for the years 2004 to 2009. The result showed that the relationship is negative, which ensures that banks have to limit NPLs for the solution to increase banks' efficiency.

(Trujillo-Ponce and Finance 2013) found the exact results in measuring the determinants of productivity between Spanish commercial banks for the years 1999 to 2009. They used the unbalanced panel data and GMM process for measuring the impact of NPLs for the case of 89 banks with 697 observations. The results showed that NPLs have a negative impact on return on assets at a significance level of 5 percent and return on equity at a significance level of 1 percent.

(Amador, Gómez-González et al. 2013)analyzed the relationship between nonperforming loan growth and bank risk-taking behavior. The result of their research indicated that NPL growth over a period of time can lead to an increase in banks' riskiness, accompanied by a decrease in solvency and an increase in the ratio of NPLs. Most of the studies showed that extra credit growth can lead to the battlement of the bubbble

Chapter: Three

Methodology

3.1 Methodology of the Study:

This research utilizes secondary panel data, specifically time series data spanning the last ten years, sourced from the official website of Janata Bank PLC. The analysis focuses on examining the determinants of profitability, measured by Return on Equity (ROE), for Janata Bank PLC. The study identifies four key financial indicators as independent variables: Net Interest Margin (NIM), Loan to Deposit Ratio (LDR), Debt to Asset Ratio, and Capital Adequacy Ratio (CAR).

To assess the impact of these variables on ROE, a linear regression model is employed. This approach allows for quantifying the relationship between the bank's profitability and the selected financial ratios over the observed period. The findings aim to provide insights into how variations in NIM, LDR, Debt to Asset Ratio, and CAR influence the ROE of Janata Bank PLC, thereby offering a comprehensive view of the factors driving the bank’s financial performance.

The Regression Model

ROE = β0+β1NPLRR+β2NIM+β3LDR+β4DAR + β5CAR + u

ROE = Return on Equity

β0 = Constant term

NPLR = Non-Performing Loan Ratio

NIM = Net Interest Margin

LDR = Loan to Deposit Ratio

DAR = Deposit to Asset Ratio

CAR = Capital Adequacy Ratio

u = Disturbance term

Return on Equity

Return on Equity (ROE) is an important financial metric used to assess a bank's profitability relative to the shareholders' equity. It indicates how efficiently a company utilizes the capital invested by its shareholders to generate profits. Investors commonly rely on ROE to evaluate the effectiveness of management, compare profitability across similar companies.

Non Performing Loan Ratio

The NPL ratio measuress the ability of abank's's loan. It can bmeasuredred by dividinon-on-performing loans by total loans.lowerower NPL ratio is considered as it indicates lower credit risk.

Net Interest Margin

Net interest is an analysis of an organization's profitability. It represents the gap between the interest income a bank achieves from its invested assets, for example, investments and loans, and the expenses of interest it pays on liabilities, like deposits and borrowings. A higher NIM indicates better profitability.

Loan to Deposit Ratio

The loan-to-asset ratio represents the percentage of a bank's assets invested in loans. It's calculated by dividing total loans by total assets. A higher ratio signifies a higher concentration of assets in loans, which can be profitable but also riskier.

Deposit to Asset Ratio

The debt-to-equity ratio indicates the proportion of an institution's assets provided by customer deposits. It can be measured by dividing total deposits by total assets. A greater ratio typically shows a much more stable, lower-cost source of funding.

Capital Adequacy Ratio

The Capital Adequacy Ratio (CAR) is an essential regulatory standard that indicates the proportion of a bank's capital relative to its risk-weighted assets. This ratio helps ensure that banks hold enough capital reserves to cover potential losses, safeguarding depositors and promoting the stability of the financial system. By maintaining an adequate CAR, banks demonstrate their ability to withstand financial stress and continue operating without jeopardizing the interests of stakeholders. Regulatory authorities impose minimum CAR requirements to limit excessive risk-taking and enhance the overall health of the banking sector

3.2 Research Hypothesis:

To get a clear sense of the impact of NPL on the profitability of Janata Bank PLC, the study is examining the following five hypotheses that were generated based on existing results in the literature. The research looks into the five following hypotheses:

H1: There is no significant relationship between return on equity and non-performing loan ratio.

H2: There is no significant relationship between return on equity and net interest margin.

H3: There is no significant relationship between return on equity and loan-to-deposit ratio.

H4: There is no significant relationship between return on equity and debt-to-asset ratio.

H5: There is no significant relationship between return on equity and capital adequacy ratio.

Chapter: Three

Profile of Janata Bank PLC

3.1 History of Janata Bank PLC

Janata Bank PLC is a state-owned commercial bank in Bangladesh with a rich history closely tied to the country's independence and economic rebuilding efforts. It was established in 1972, shortly after Bangladesh gained independence in 1971, through the nationalization and merger of two pre-existing banks: United Bank Limited and Union Bank Limited. This formation was enacted under the Bank Nationalization Ordinance (President's Order No. 26) of 1972, reflecting the government's initiative to consolidate and strengthen the banking sector to support the nascent country's economic development.

The bank's headquarters is located in Motijheel, Dhaka, the commercial hub of Bangladesh. Since its inception, Janata Bank has grown to become the second largest commercial bank in the country by deposits and assets. It operates an extensive branch network, with over 920 branches nationwide and four overseas branches in the United Arab Emirates, serving a broad customer base including retail, corporate, and investment banking clients.

In 2004–05, as part of a government-led reform initiative called the Enterprise Growth and Bank Modernization Project (EGBMP), Janata Bank underwent significant restructuring to improve governance and operational efficiency. This process culminated in the bank's transformation into a public limited company on November 15, 2007, when it was officially registered as Janata Bank PLC. This change allowed it to operate under the Companies Act while remaining wholly government-owned.

Throughout its history, Janata Bank has played a pivotal role in Bangladesh's socio-economic development by financing various sectors and supporting national financial stability. The bank has faced challenges such as loan defaults and fraud cases, including a notable embezzlement incident in its UAE operations in 2012. However, it continues to maintain a significant presence in the country's banking industry, supported by a large workforce and a comprehensive organizational structure that includes multiple regional and divisional offices.

3.2 Corporate Profile of Janata Bank PLC

Name: Janata Bank PLC

Type: State-owned Public Limited Commercial Bank

Headquarters: Janata Bhaban, 110 Motijheel Commercial Area, Dhaka-1000, Bangladesh

Website: www.jb.com.bd (http://www.jb.com.bd/)

Key Facts and Figures (As of December 2024)

Authorized Capital: BDT 30,000 million

Paid-up Capital: BDT 23,140 million Face Value per

Share: BDT 100

Shareholding: 100% owned by the Government of Bangladesh Number

of Employees: 14,323

Number of Branches: 929 (including 4 overseas branches in the UAE)

Divisional Offices: 12

Area Offices: 50

Head Office Divisions: 14 Head

Office Departments: 57

Leadership

Chairman: Mr. M. Fazlur

Rahman

Managing Director: Mr. Md. Mazibur Rahman Company

Secretary: Md. Abdul Alim Khan Subsidiaries and

Affiliates

Janata Capital & Investment Limited (JCIL): Located in Motijheel, Dhaka, providing investment services.

Janata Exchange Co. SRL: Branches in Milan and Rome, Italy, facilitating foreign exchange and remittance services.

3.3 Functions of Janata Bank PLC as a Commercial Bank

Janata Bank PLC, as one of the largest state-owned commercial banks in Bangladesh, performs a wide range of functions typical of a commercial bank, supporting both individual customers and the broader economy. ***Its functions include:***

Accepting Deposits

Janata Bank accepts various types of deposits from the public, including savings accounts, current accounts, fixed deposits, and recurring deposits. These deposits provide a safe place for customers to keep their money while earning interest in some cases.

Extending Loans and Advances

The bank provides credit facilities to individuals, businesses, and industries in the form of loans, overdrafts, cash credits, and advances. It finances sectors such as agriculture, industry, trade, and small and medium enterprises (SMEs), contributing to economic.

Credit Programs and Special Financing

Janata Bank offers special credit programs targeting micro-enterprises, rural banking, and priority sectors aligned with national development goals. It supports poverty alleviation and employment generation through these targeted lending.

Investment and Trade Finance

The bank facilitates import and export financing, including issuing letters of credit, bills discounting, and foreign trade services. It acts as an intermediary in international trade transactions, supporting Bangladesh’s global trade.

Remittance and Foreign Exchange Services

Janata Bank provides foreign exchange services and remittance facilities, enabling customers to send and receive money internationally. It operates four overseas branches in the United Arab Emirates and maintains relationships with numerous foreign correspondents worldwide.

General Banking Services

The bank offers a variety of general banking services such as account opening, cash deposits and withdrawals, cheque clearing, fund transfers, and utility bill collections (e.g., gas, electricity, telephone bills). It has introduced “one-stop services” to improve customer convenience by allowing multiple transactions at a single counter.

Digital and Electronic Banking

Janata Bank has implemented online banking, ATM, EFT (Electronic Funds Transfer), and mobile banking services in many branches to enhance accessibility and convenience for customers.

Corporate and Retail Banking

The bank serves both retail customers and corporate clients, providing tailored financial products and services to meet diverse needs, including savings, loans, and investment opportunities.

Capital Market and Investment Services

Through its subsidiary Janata Capital & Investment Limited, the bank offers investment advisory and capital market services, supporting customers in wealth management and investment.

Government and Utility Services

Janata Bank acts as a collection agent for various government and utility payments, including taxes, pensions, scholarships, and allowances, facilitating public financial transactions efficiently.

3.4 Vision and Mission

Vision: To become an effective and the largest commercial bank in Bangladesh supporting the socio-economic development of the country and to be a leading bank in South Asia.

Mission: To maintain stable growth, deliver high-quality financial products, provide excellent customer service through experienced management, and ensure good corporate governance across all banking units.

Slogan

Janata Bank PLC’s slogan is:

“Your Commitment Partner in Progress’’

3.5 Objectives of Janata Bank PLC

- ✓ To become the most effective and largest commercial bank in Bangladesh, supporting the socio-economic development of the country and aiming to be a leading bank in South Asia.
- ✓ To provide comprehensive banking services that meet the diverse financial needs of individuals, businesses, and industries across Bangladesh.
- ✓ To contribute to the country's economic growth by financing key sectors such as agriculture, trade, industry, and export-import businesses.
- ✓ To maintain stable growth and profitability through prudent management and sound banking practices.
- ✓ To ensure customer satisfaction by offering quality products and services tailored to customer needs.
- ✓ To uphold good corporate governance and transparency in all operations.
- ✓ To modernize banking operations by adopting up-to-date technology and digital banking solutions.

3.6 Management Hierarchy of Janata Bank PLC

Board of Directors

The bank is governed by a Board of Directors consisting of around 10 members, headed by the Chairman, currently Mr. M. Fazlur Rahman. The board oversees the strategic direction and policy formulation of the bank.

Top Executive Management

The Managing Director (MD), currently Mr. Md. Mazibur Rahman, is the chief executive responsible for overall management and operations of the bank. The Company Secretary, Md. Abdul Alim Khan, assists in corporate governance and regulatory compliance.

Senior Management

The Managing Director is supported by several Deputy Managing Directors (DMDs) who oversee key functions such as finance, risk, and internal control. Other senior executives include General Managers (GMs) and Assistant General Managers (AGMs) who head various divisions and departments both at the Head Office and in the field.

Head Office Structure

The Head Office is divided into 14 divisions and 57 departments, each managed by DGMs and AGMs respectively. Divisions handle specialized functions such as credit, treasury, compliance, IT, human resources, and audit.

Field and Branch Management

Janata Bank operates 12 divisional offices, 50 area offices, and 929 branches including 4 overseas branches in the UAE. Branches are categorized into Corporate, Grade-1 to Grade-4, and Authorized Dealer branches. Field offices are managed by General Managers and Deputy General Managers who supervise branch operations and ensure compliance with bank policies.

Small & Medium Enterprise (SME):

Janata Bank PLC is a key financial institution supporting Bangladesh's SME sector through diversified loan products, increasing lending volumes, and focused development objectives. The bank's SME financing initiatives aim to foster entrepreneurship, generate employment, and contribute to the country's economic progress while continuously working to improve service delivery and risk management.

Corporate Social Responsibility:

Based on the available official data from Janata Bank PLC's reports and credible sources, here is a summary of Corporate Social Responsibility (CSR) expenditure by category in million BDT for the last 10 years (2014–2023). Detailed year-wise data for every year is limited publicly, but the following consolidated figures and trends are drawn from Janata Bank's annual reports and research studies:

(Figure in million)

CSR Category	Approximate Total (2014-2023)	Notes/Trends
Education and Research	25-30%	Continuous focus about 20-25% of total CSR spend.
Health and Treatment	30-35	Steady priority around 20-25% of CSR budget.
Poverty Reduction and Rehabilitation	10-15	Ongoing support for marginalized groups.
Combat Against Natural Calamity	35-40	Increased focus especially in recent years ; often 40%+ of CSR spending.
Preservation of History, Culture, Tradition, and Sports	70-75	Major share in early years, somewhat reduced emphasis recently.
Preservation of Environment	1-3	Declining emphasis post 2018, but still part of CSR.
Expansion of Technology	10-15	Moderate focus, supporting modernization and financial inclusion.
Others	5-7	Miscellaneous social welfare activities.
Total Estimated CSR Expenditure(2018-2023)	185-220	Approximate total CSR spending over the decade.

Chapter: Four
Theoretical Background

4.1 Theory of Ratio

The analysis of the theory of ratio is the most common way to measure a company or organization. Using this company may have been the best decision to make an investment. Most of the financial institutions are depending on it just to make their investment go into the productive sector. With these tools nowadays, people can make decisions about their short-term & long-term financing. Ratio can make the results so approximate to practical. Only ratio can express the comparative result on the basis of logical calculation. There are many kinds of ratios nowadays. People are creating different software to get proper analysis of their respective balances.

Basically, ratios are categorized in five ways in the banking sector. These are given below

1. Liquidity Ratio
2. Asset Activity Ratio
3. Efficiency Ratio
4. Profitability Ratio
5. Credit Risk Ratio

4.1.1 Liquidity Ratio:

The liquidity ratio is the ratio by which a company can calculate the company's ability to meet up with the amount of liability to creditors. Most of the firm used to take out a large amount of loans from respected lenders to expand its productive activity. Against the loan, a company has to calculate the cost of capital. Because a levered company is more beneficial compared to an unlevered company. So in that case, a company has to maintain a liquidity ratio to be aware of its liability to creditors. There are some liquidity ratios that are given below:

1. Cash Ratio.
2. Cash to Assets Ratio.
3. Cash to Deposit Ratio.
4. Loan to Total deposit ratio.
5. Loan to total assets ratio.

4.1.2 Asset Activity Ratio:

It modifies the various kinds of accounts in the financial statement in consideration of cash & time. By these ratios, an institution can measure its perfect time to make a transaction in cash or credit. From the perspective of the banking sector, it covers two ratios. These are given below:

1. Fixed Assets Turnover.
2. Total Asset Turnover.

4.1.3 Efficiency Ratio:

It implies the percentage of assets returned compared to its total cost. On the other hand, it measures the income made by using 100% assets. The higher the ratio indicates the better operation of the company. Sometimes it ensures the respected creditors are about to buy more common stocks. Some ratios are responsible for creating efficiency in a company; these are:

1. Interest Income to Expense ratio.
2. Operating Expense to asset ratio.
3. Operating Income to Asset Ratio.
4. Operating Expense to Revenue Ratio.

4.1.4 Profitability Ratio:

The ratio measures the company's ability in the form of profit remaining after deducting all costs. Every company wants to get the biggest profit in consideration of its total operating activities. It can indicate the investment opportunity to a firm about to make a decision. By the ratio, new investors for a company can take decisions as to whether to have investment. There are some ratios that are considered profitability ratios. Those are given below:

1. Return on assets.
2. Return on equity.
3. Interest Spread.
4. Net Interest Margin.
5. Operating Profit Margin

4.1.5 Credit Risk Ratio:

The ratio refers to the probability of credited money to return. If the respected loan amount does not make interest, it has the most probability to be in default. At the end of the day, it will be considered a non-performing loan. It used to calculate in two ways:

1. Equity to Total asset.
2. Equity to net loan.

Chapter: Five
Analysis and Findings

5.1 Descriptive Analysis

To examine how data are well adjusted with the research model to simple find out statistical verification such as Mean, Standard Deviation, Minimum, Maximum, Median, Skewness, Kurtosis which are shown below:

Statistics	ROE	NPLR	NIM	LDR	DAR	CAR
Mean	-1.194	1.235874	.943	.817	1.67014	1.40526
Standard Deviation	1.166354	.0510812	.0133749	.0271006	.0829547	.1030064
Minimum	-2.29	1.167022	.92	.79	1.571476	1.25042
Maximum	1.29	1.313656	.97	.85	1.812178	1.547529
Median	-1.355	1.235422	.94	.815	1.652748	1.413852
skewness	.8569679	.231767	.305454	.0868529	.7553685	-.2595613
Kurtosis	2.89998624	2.163273	3.269048	1.183136	2.343177	1.861243

According to the results in the table, the mean and median truly retain equal values. This guarantees that the data obtained are distributed equally. Both the mean and median are quite close.

5.2 Analysis of Regression:

Regression analysis is a statistical approach that investigates how a dependent variable is influenced by one or multiple independent variables. It aims to model and predict the expected average value of the dependent variable by using the given values of the independent variables.

(Regression analysis)

ROE	Coef.	Robust Coef.Std	t	P>[t]	[95% Conf. Interval]
NPL	13.84721	1.589064	8.71	0.001	9.435216 18.25916
NIM	-20.81015	11.40573	-1.82	0.142	-52.47754 10.85725
LDR	40.1464	13.08601	3.07	0.037	3.81382 76.47899
DAR	18.1167	2.256011	8.03	0.001	11.85301 24.38039
CAR	-9.352101	1.684166	-5.55	0.005	-14.02809 -4.676108
_cons	-48.59833	21.92475	-2.22	0.091	-109.4712 12.27453

Number of Observation = 10
F (5, 4) =308.98
Probability > F = 0.0000
R-squared = 0.9536
Root MSE = .37695

From the regression table, it is depicted that there is a relationship among variables such as non-performing loan ratio, net interest margin, loan-to-deposit ratio, and debt-to-asset ratio, with net interest margin assigned by the positive coefficient. Here, return on equity is dependent, and the rest of the variables are independent. The study reveals that the value of r-squared is 0.9536, indicating a significant correlation between the dependent and independent variables.

Dependent variable values fluctuate significantly if any independent variable value changes.

5.3 Hypothesis Summery:

Hypothesis	t-value	p-value	Comments
H1	8.71	0.001	Significant Relationship
H2	-1.82	0.142	No Significant Relationship
H3	3.07	0.037	Significant Relationship
H4	8.03	0.001	Significant Relationship
H5	-5.55	0.005	Significant Relationship

Significance level 0.05

The study shows that the value of r square is 0.9536, indicating a strong correlation between the dependent and independent variables. The table also displays the F-statistics or F-test value, which is 308.98 and the probability of the F-statistics, which is = 0.0000. This p-value demonstrates a statistically significant interaction between dependent and independent variable. Besides these, I found no significant relationship between Return on Equity and Capital Adequacy Ratio.

5.4 Analysis of VIF Test

When least square regression models are used, variance inflation factors (VIF) are used to calculate the correlation between independent variables. The “multicollinearity” is used by statistics to describe this kind of association. Models for regression may experience issues due to access multicollinearity. (statisticsbyjim.com) so, using this test to check multicollinearity.

Variables	VIF	1/VIF
NPLR	6.64	0.150656
NIM	4.27	0.234117
LDR	2.40	0.416219
DAR	2.30	0.434667
CAR	2.26	0.443221
Mean VIF	3.57	
VIF>10		

Above the table, it is clear that there is no multicollinearity problem according to the standard of below 10. S0, the result is accepted.

Chapter: Six
Recommendations and Conclusion

6.1 Recommendations:

Based on the measurement that ROE is the response outcome and NPL ratio, NIM, loan-to-deposit ratio, debt-to-asset ratio, and capital adequacy ratio are exploratory variables, with significant relationships found for NPL ratio, loan-to-deposit ratio, debt-to-asset ratio, and capital adequacy ratio, the following recommendations can be made:

Strengthen NPL Management: Since the NPL ratio has a negative effect on ROE, banks should enhance credit risk assessment, monitoring, and recovery processes to reduce non-performing loans. Effective NPL management is crucial to sustain profitability and financial stability.

i. Optimize Capital Adequacy: An important positive relationship between capital adequacy ratio and ROE suggests maintaining a wealthy capital form to absorb potential damages and support lending activities, thereby improving profitability.

ii. Monitor Loan to Deposit and Debt to Asset Ratios: Given their significant influence on ROE, banks should carefully manage their loan to deposit and debt to asset ratios to balance liquidity, risk, and profitability. Ensuring prudent lending and funding strategies will help optimize returns.

iii. Enhance Net Interest Margin (NIM): Although not always significant in all studies, NIM generally positively affects profitability. Banks should focus on improving interest income relative to interest expenses to boost ROE.

Overall, banks need integrated financial management focusing on reducing credit risk (lowering NPLs), maintaining adequate capital, managing funding and asset quality ratios, and improving interest margins to enhance ROE and profitability.

6.2 Conclusion:

This research analyzed the influence of key financial indicators on the profitability of banks, measured by return on equity (ROE). The findings reveal that the non-performing loan (NPL) ratio, loan-to-deposit ratio, debt-to-asset ratio, and capital adequacy ratio have significant relationships with ROE. Specifically, a higher NPL ratio negatively affects profitability, highlighting the critical importance of effective credit risk management.

Conversely, a strong capital adequacy ratio positively influences ROE, underscoring the need for banks to maintain sufficient capital buffers. Additionally, the loan-to-deposit and debt-to-asset ratios significantly impact profitability, indicating that prudent management of funding and leverage is essential for optimizing returns. Although the net interest margin (NIM) did not show a statistically significant effect in this study, it remains a vital component of bank earnings. Overall, the results emphasize that banks must focus on controlling asset quality, maintaining robust capital levels, and managing their funding structures to enhance profitability and ensure sustainable financial performance.

6.3 Limitations of the Study:

1. **Data Scope and Sample Size:** The study may be limited by the size and scope of the dataset used, which could affect the generalizability of the findings across different banking institutions or regions.

2. **Time Period:** The analysis may cover a specific time frame that does not capture long-term trends or the impact of economic cycles on the relationships between variables.
3. **Variable Selection:** While key financial ratios was involved, but several crucially influential factors such as macroeconomic position, regulatory changes, management efficiency, or market competition were not considered.
4. **Causality:** The research find out significant relationships but don’t necessarily prove causality between the independent variables and ROE.
5. **Data Quality:** Exactness of the results depends on the reliability and consistency of the financial data reported by banks, which may vary.
6. **Model Specification:** The chosen model may not fully capture complex interactions between variables or nonlinear effects that could influence profitability.

Acknowledging these limitations provides a context for interpreting the results and suggests areas for future research to build upon the current findings.

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