



A complete analysis on the financial performance (Loan and Advance) of Janata Bank Ltd. of Bangladesh

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Abstract

Commercial banks lend money to different categories of borrowers for various purposes with view to generating revenue. Accordingly, while processing and appraising a loan proposal, banks essentially analyze the information relating to borrowers, assess the purposes of loan and determine the viability of the loan proposal. If the proposal is sound and safe for lending, loan is sanctioned and disbursed. The report discusses about the management practices of different credit facilities, approval process, monitoring and performance of the bank under study. Janata Bank Limited is the second largest Government owned Bank. It operates credit facilities for business purpose as well as welfare of the economy. Bank has finance at the rural level at a very low interest rate. It has also Special loan procedures for the rural farmers. This helps for the development of the rural economy of the country. This report is categorized in four different chapters. Firstly, it contains the introduction of the study, secondly, the overview of the organization. Thirdly, Concept and Analysis of the impact of loans and advances and also contain Bangladesh Bank guidelines. Next discussion is the analysis and findings about different variables of facilities. At the end, the report makes some valuable policies implication from the analysis.

Keywords: commercial banks, financial performance, Janata Bank Ltd.

Introduction

Banks are profit-earning concern. The word "Bank" refers to the financial institution deals with money transaction. Banks collect deposits at the lowest possible cost and provide loans and advances at higher cost. The difference between two is the profit for the bank. Commercial banks as the most important functionary of the financial system play a dynamic role in the economic development of Bangladesh through mobilization of savings and allocation of credit to productive sectors. However, they should increasingly involve themselves in development financing in order to gain long-term viability benefitting themselves as well as the economy, but that should not occur at the cost of viability of the total financial intermediation process.

Objective

The objective of the study can be divided into two different areas-

- To have idea regarding various types of Loan and Advance of Janata Bank Ltd.
- To identify the loan sanction procedure in different sectors in last some years.
- To identify the credit approval, their securities and monitoring process of Janata Bank Ltd.
- To identify the recovery rates of the loans in different sectors in last some years and have a comparison among them.
- To identify the problems regarding loan and advance and give some recommendations for improving the effectiveness and efficiency of loan and advances.

Research Methodology

The study is based on both secondary and primary data

several Analysis of Loan and Advance Activities Janata Bank Ltd. Different officials, private records, published and unpublished materials, journals, research report and seminar paper etc. have been use for primary data different Janata Bank have been questionnaire have been developed and final acceptance. To make any research, methodology is here important, and without adopting method it is difficult to make any research. When I took decision to make this research, Analytical method, study method, Survey method statistics method etc. are applied in this research. This report contains descriptive analysis and theoretical approach as it is based on the analysis of the loan and advance activities of JBL. In order to make the study more meaningful and presentable different types of charts, graphs, figures are used. Software like Microsoft Word, Microsoft Excel, and Microsoft PowerPoint etc. is also used to represent the report.

Source of Information

Sample Information

Main source of the information is annual report of Janata Bank Limited, report of annual meeting, brochures and web sites. The information incorporated in this report is heavily collected both from the primary sources and as well as from the secondary sources.

Primary Sources of Data

I have collected data directly from the different sectors of Janata Bank head office. This is called primary source of data.

Secondary Sources of Data

The secondary data is collected from annual report,

distinguished conceptual matters, websites and several published matter as articles in different versions of printings. Secondary Sources are: • Annual Reports of different years of Janata Bank Limited. • Annual Report of Bangladesh Bank of 2018. • Other published documents of Janata Bank Limited. • Respective sectors of foreign matter of the head office

Limitations of the study

The study is not assumed free from limitations. Although adequate precautionary measures have been taken in collecting data from the present study, it is supposed to be complacent in the matter of reliability of those data. The main three limitations are discussed below:

- For the lack of our practical knowledge, some shortcoming may be available in the paper.
- The bank has naturally shown us some indifference connecting its most confidential information.
- The executives of Janata Bank Limited were too busy to spare time for the interneer.
- The study also suffered from inadequacy of data provided by Janata Bank Limited

Types of Loans and Advances of Janata Bank Ltd.

Janata bank has different type of loans. As per banking company act 1991 every company has to maintain a specified minimum (presently 16%) of the total of its demand and time liabilities in the form of cash and approved securities with Bangladesh Bank. This percentage or ratio is termed statutory liquid ratio The main focus of Janata Bank Limited Credit Line/Program is financing business, trade and industrial activities through an effective delivery system. Janata Bank Limited offers credit to almost all sectors of commercial activities having productive purpose. The loan portfolio of the Bank encompasses a wide range of credit programs covering about 200 items. Credit is also offered to 15 (fifteen) thrust sectors, as earmarked by the Government, at a reduced interest rate to develop frontier industries. Credit facilities are offered to individuals, businessmen, small and big business houses, traders, manufactures, corporate bodies, etc. Loan is provided to the rural people for agricultural production and other off-farm activities. Loan pricing system is customer friendly and the prime customers enjoy prime rate in lending and other services. Quick appreciation, appraisal, decision and disbursement are also ensured. Credit facilities are extended as per guide-lines of Bangladesh Bank (Central Bank of Bangladesh) and operational procedures of the Bank. The rates may, however, change from time to time depending on the level of competition in the financial sector Janata bank limited, Mouchack Branch is situated in Mouchack, Dhaka which is very important place in Dhaka city. It is a very big and important branch of JBL. These branches give different type of loans to its borrower. These are;

- Term Loan
- Small and Medium Enterprise Loan
- Continuous Loan
- Rural & Agro Credit
- Poverty Alleviation Program
- Specialized Loan Program
- Micro & Cottage Industries Loan
- Import & Export Finance
- Letter of Credit

Sector wise Loans and Advances are shown below:

Table 1: Sector wise Loans and Advances

Year	2015	2016	2017
Industries	12367204.30	17075000	6220295.71
Jute Trade	224059.14	319354.84	214381.72
Tannery (Industry & Trade)	7144892.47	6347446.24	5510752.69
Textile (Industry & Trade)	7611021.51	10016155.91	10487231.18
Transport	41935.48	42741.94	43279.57
Steel & Engineering	2980779.57	3664650.54	3580107.53
Tea	117876.34	118951.61	119220.43
Sugar Mills	3981182.81	5094220.43	5016397.85
House Building	1558467.74	2032392.47	2004166.67
Bricks	1617338.71	1918682.81	2019489.25
Cold Storages	89650.54	383064.52	643145.16
Food (Industry & Trade)	2207930.11	2547983.87	2802419.35
Rural Credit	17278091.41	19594354.84	21978763.44
Export Credit	25648790.32	37992607.53	51338172.04
Import Credit	43958064.52	70913978.49	81496908.60
Industrial Credit	30069986.56	53836021.51	55848118.31
Others	66703534.92	71508951.66	97183951.65
Total	223600806.45	303403225.81	346506720.43

1. Loans and Advances of last five years

Total loans and advances performed by JBL Bank ltd. are quite satisfactory and are maintaining an increasing trend over the years. The below graph shows, in 2017, the amount increased significantly than the previous years.

Table 2: Loans provided by bank on different year

Year	Loans and Advances of Janata bank as a whole (tk. in millions)
2013	226777857.82
2014	258140019.62
2015	305807489.36
2016	285747654.32
2017	319773246.47

Source: Annual Report of Janata Bank

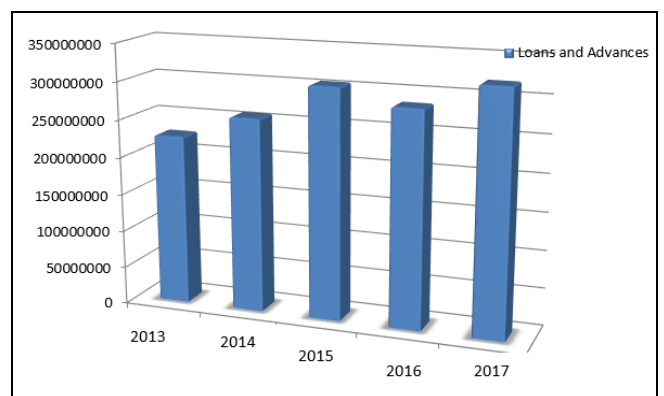


Fig 6: Comparative amount of Loans and Advances.

Comment: The above Fig shows the comparative amount of provided Loans of Janata Bank from 2013 to 2017. Here, we can observe that in 2013bank provide 226777857.82 million taka and in 2014 it increases to 258140019.62 million taka. In 2015 it also increases to 305807489.36 million taka but in 2016 it decreases to 285747654.32 million taka. In 2017 it provide highest amount of loan.

2. Provision for Loans and Advances

Provision against loans and advances has increased to BDT 1947.36 million in 2017 against that of the earlier year. As percentage of classified loans compared to that in 2015 increased, provision also increased in 2017. The bank also able to recovered BDT 7337.30 million to December 2017 which is 97.72 percent of the recovery target.

Table 3: Provisions for loan and loans provided by bank on different year

Year	Provisions For Loans and Advances of Janata bank as a whole (tk. in millions)	Loan Disbursements of Janata bank as a whole (tk. in millions)
2014	29529606	25814001
2015	25239711	30580748
2016	53919355	28574765
2017	31196949	31977324

Source: Annual Report of Janata Bank

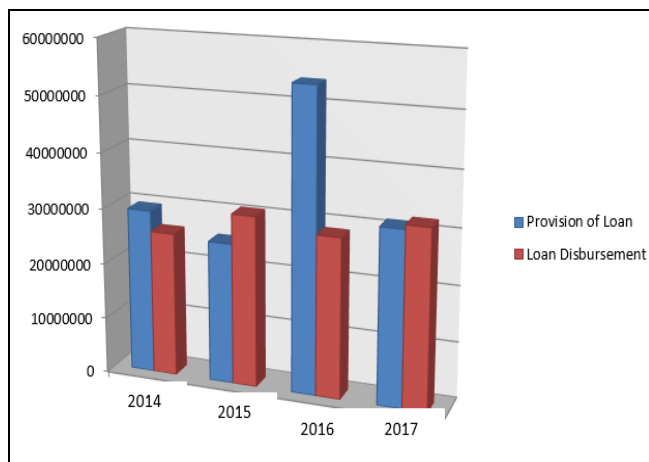


Fig 7: Comparison of Provision for Loans and Advances and Loan Disbursement.

Comment: The above Fig shows the comparative amount of provisions of Loans and Advances and Loan Disbursement of Janata Bank from 2014 to 2017. Here, we can observe that in 2014 bank’s provisions was 29529606 million taka and it provided 25814001 million taka. In 2015 decreases its provisions but increases its disbursement. In 2016 it increases its provision to 53919355 million taka but decreases its disbursement to 28574765.32 million taka. In 2017 it provides more amount of loan than the provision.

3. Recovery of Loan

The target for total cash recovery against loans was BDT 8000 million for 2017. The bank was able to recovered BDT 7337.30 million to December 2017 which is 91.72 percent of the recovery target. In 2016, the bank has recovered BDT 5757.10 million.

Table 4: List of amount of recovery and amount of given loans of Janata bank on different year.

Year	Recovery (tk. in millions)	Given Loans (tk. in millions)
2014	485598.90	258140019
2015	883100.93	305807489
2016	927200.01	285747654
2017	1374663.60	319773246

Source: Annual Report of Janata Bank

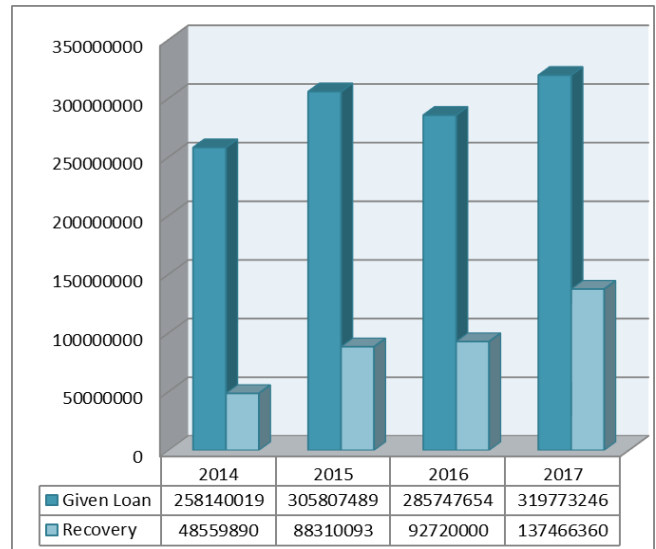


Fig 8: Comparison of given loan and recovery.

Comment: The above Fig shows the loan recovery in terms of given of Janata Bank from 2014 to 2017. Here, we can observe that in 2014 bank’s recovery was 485598.90 million taka and it provided 25814001 million taka. In 2015 increases its recovery to 883100.93 million taka but it also increases its loan disbursement. In 2016 it recovers 927200.01 million taka. In 2017 it recover highest amount of loan than the given loan.

4. Income from Interest

In 2017, operating profit cut a figure of BDT 10,683.34 million. Operating profit did not come up to the expected level due to decrease in interest income and increase of interest expenses as compare to those of previous year.

Table 5: Income from interest and Total Operating Income of bank on different year

Year	Income from Interest (tk. in millions)	Total Operating Income (tk. in millions)
2014	26335634	25114480
2015	34219016	38920468
2016	36189684	21118341
2017	33734428	20592603

Source: Annual Report of Janata Bank

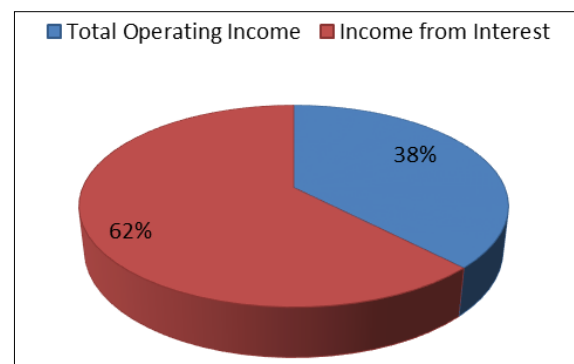


Fig 9: Percentage of interest income in terms of operating income in 2017

Comment: The above table shows the comparative amount of interest earned from Loans of Janata Bank from 2013 to 2017. In the pie chart we can observe the percentage of

interest income in terms of operating income in 2017 which is 38% of total operating income. The main operating income of Janata Bank is come from the interest earning. So, bank should provide loan to the sector that provide more interest income.

5. Trend analysis

As aspect of technical analysis that tries to predict the future movement profit on past data. Trend analysis is based on the idea that what has happened in the past gives traders an idea of what happen in the future.

Trend Analysis on Deposit

Fitting straight line trend by the method of least squares we find the following line:-

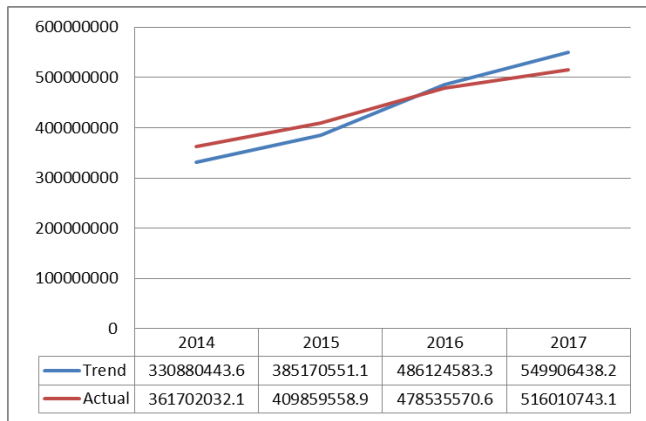


Fig 10: Trend analysis on Deposit

7. Performance of JBL

Table 6: Measuring Liquidity

	Particulars	2017	2016	2015	2014
1. Loan to Total Depositratio	Total Loans &Advances	346506767.99	303403506.09	223601459.17	194459923.91
	Total Deposit	486124589.53 =0.71	385170551.66 =0.79	330903157.17 =0.68	297494288.61 =0.65
2. Loan to Liabilities ratio	Total Loans &Advances	346506767.99	303403506.09	223601459.17	194459923.91
	Total Liabilities	551393083.75 =0.63	436617743.43 =0.69	376078512.04 =0.59	346901786.76 =0.56
3. Asset to Liabilities ratio	Total Asset	591921195.07	464024096.98	396238451.84	359082388.34
	Total Liabilities	551393083.75 =1.07	436617743.43 =1.06	376078512.04 =1.05	346901786.76 =1.035

Comments: A higher Liquidity ratio indicates a less Risk & Less Profitability of a Bank. The Bank has the Loan Deposit ratio in 2016 is 0.79, But in 2017 the proportion of loan amount gradually decrease in respect to Deposit collection. In the year 2017, Janata Bank grant taka 0.71 of loan in respect of deposit taka 1.07, which show a greater utilization of Deposit money. Furthermore Bank’s Loan to Liabilities ratio is also decreases from 2016 to 2017, which indicate lower default risk. Finally Janata Bank’s Asset level also increase in respect with total Asset in last year.

Findings

Based on observation and interpretation I found some positive and negative side of JBL. Those are given below:

- Bank follows the overall credit assessment and risk grading process according to the sales of Bangladesh Bank.
- Loan & the advances are vital to finance the projects. An appropriate credit distribution system and monitoring will ultimately lead to the profit maximization of banks. It is evident from that the size of JBL loans & advances

Comment: Here the value of x is constant and the value of y is slope. The positive value of y means positive slope and the negative value of y means negative slope.

From the above Fig we see that the bank increases deposits day by day. So, we can say that deposit level is satisfactory.

6. Trend Analysis on Loans and advances

Fitting straight line trend by the method of least squares we find the following line:-

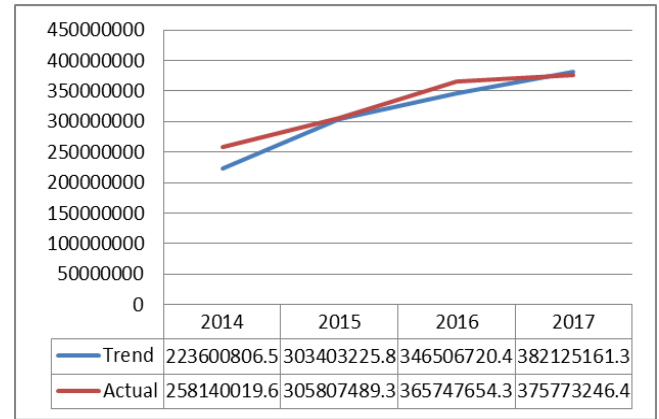


Fig 11: Trend analysis on Loans and Advances

Comment: Here the value of x is constant and the value of y is slope. The positive value of y means positive slope and the negative value of y means negative slope. From the above Fig we see that the bank increases loans and advances day by day.

- are increasing over the years.
- The credit growth in the banking sector did not increase due to lower demand of loan.
- Sometime the loan documentation is not fairly done by the branch.
- Operating profit did not come up to the expected level due to decrease in interest income and increase of interest expenses as compare to previous years.
- Sometime the document verification is done after loan sanctioning the loan.
- Sometimes it is difficult to collect formal documents and financial statements from the client, means the non-availability of client’s detailed information.
- Processing cost is higher compared to the other large-scale loan services provided by the bank because close monitoring and supervision of the credit operation becomes necessary.
- There is Shortage of manpower and Lack of proper training for the employees in credit section of the branch.
- In many cases bank face this problem because bank’s

credit officer fails to value collateral property. Proper valuation means collateral will exactly cover the risk of bad loan.

- JBL does not keep enough provisions against classified loans and advances.
- Private sector banks are relatively efficient in processing and executing legal actions against defaulters for their nonpayment of loans and advances in due time that of public sector bank.
- The credit management of JBL are not fully conformity with the guidelines prescribed in the Bank Companies Act 1991 and International Accounting Standard-30(IAS-30)

Recommendation

- The procedure of loan sanctioning should be automated to make sanctioning of loan less time consuming and reducing the risk of losing documents of disbursed loans.
- The bank should diversify its loans more to finance small entrepreneurs for better growth of the country.
- The bank can provide student loan, doctors loan etc. This may encourage the students to come forward to do something for the economy. And also increase the amount of personal loan and consumer loan.
- Strong promotional activities should be increased to motivate its present potential loans related clients. More loans can be granted for new entrepreneurs, new businessman and new companies etc., which ultimately reduce “class banking”
- Maximum number of the loan is provided in the long-term industrial loans. Bank’s clients are also limited. So, they can’t serve the economy of the country that much. So, they should diversify their loans more in agriculture, forestry, fishing and new industries etc. for better economic growth of the country.
- The bank should update its loan and advances strategy in sustainable and appropriately enough to survive in the market.
- The bank should provide more loans of small scale in different sectors though it will decrease the profit a little. But it will be very safe.
- JBL has 886 branches all over the country. It is very hard to provide full range services with those branches. The bank needs to pay more attention toward the expansion of the branch network. The bank should develop quality service in respect of speedy disposal both at branch head office regarding loan and advances operations. A consistent relationship with customers should be improved & maintained.
- For surviving in the market, online banking facilities, ATM services and mobile Banking facilities should be provided.
- The bank should formulate the ethical banking or green banking both internally and externally.

Conclusions

It goes without saying that credit policy cannot be isolated from the broader monetary policy of the country. Like any other segment of the economic policy, credit is very important for any financial institution as it generates profit and gear up economic activities of the country. In other words, credit is business and it is input in the production process of the country. Since credit has an inherent risk, therefore proper utilization of the loans are essential to meet

the requirements of the borrower. The loan applied for by the borrower must not be employed for unproductive purpose. In this regard, the Janata Bank Limited must closely follow the progress of the loan and the way the borrower is utilizing the funds. In this way the Janata Bank Limited will deter any fake activities on the part of the borrower Credit evaluation system of Janata Bank Limited is very lengthy process. It has been revised time to time in response to the respective circular of Bangladesh Bank. The overall credit activity of Janata Bank Limited is composed of corporate loan division and loan administration. The loan management system of Janata Bank Limited is more or less effective as recovery position of classified loan is high and classified loan has been decreasing gradually during the year. They always trying to improve their credit policy for minimizing loss and maximizing profit and various measures are undertaken to develop the credit management system and the loan recovery system.

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