**Internship Report**

**On**

**Relationship between Financial Leverage and Financial Performance**

**– A study on Jamuna Bank Limited.**

**Submitted To:**

**Controller of Examinations**

National University

Gazipur-1704

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**Session: 2010-2011**

**Program: BBA**

**Major in Finance**





 National University, Bangladesh

**Date of Submission: 09th April, 2016**

**Letter of Transmittal**

09th April, 2016

Controller of Examinations

National University

Gazipur-1704

**Subject: Submission of internship report.**

Dear Sir,

This is my pleasure to submit the internship report on Relationship between Financial Leverage and Financial Performance –A study on Jamuna Bank Limited, which I was assigned. This is a great chance for me to acquire knowledge and experience in respect of performing this report. I have tried my best to prepare this to be as informative and relevant as possible. To prepare this report I have reviewed some books, articles, journals and downloaded some information from internet. I believe that the knowledge and experience I have gathered during my internship period will immensely help me in my future professional life.

I gave my best efforts to achieve the objectives of the internship and hope that my endeavor will serve the purpose. Besides, I have followed your remarks and instructions very carefully while preparing this report. I tried the best to maintain your schedule, format and discipline.

Thank you for your kind consideration.

Sincerely yours

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

Md. Riajul Islam

Roll No.: 1172433

Registration No.: 1177048

Session: 2010-2011

Program: BBA

Major: Finance

Daffodil Institute of IT (DIIT)

**Supervisor’s Declaration**

This is to certify that Md. Riajul Islam, student of Bachelor of Business Administration (BBA), major in Finance of Daffodil Institute of IT (DIIT) has completed this Internship Report on **Relationship between Financial Leverage and Financial Performance – A study on Jamuna Bank Limited.**

I believe that he has completed this report himself while he was performing internship in Jamuna bank limited.

I wish his every success in life.

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Aminul Haque Russel**

Lecturer

Department of Business Administration

Daffodil Institute of IT (DIIT)

**Student’s Declaration**

I hereby declare that the report of internship named **Relationship between Financial Leverage and Financial Performance – A study on Jamuna Bank Limited** by me in the period of performing internship on Jamuna bank limited.

I also like to declare that this report paper is my original work and is prepared for academic purpose which is a part of BBA program.

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Md. Riajul Islam**

Roll No.: 1172433

Registration No.: 1177048

Session: 2010-2011

Major in Finance

Program: BBA

Daffodil Institute of IT (DIIT)

**Acknowledgement**

At first, I would like to thank almighty Allah for giving me the opportunity to complete my Internship report. I also want to thank all the people who have given their support and assistance and extremely grateful to all of them for the completion of the report successfully. Daffodil Institute of IT (DIIT) and Jamuna bank limited both provided me with enormous support and guidance for my Internship program to be completed successfully.

Preparing this report was exciting and hard work at the same time. It is for the first time that I have been able to gather real life experience working on a report.

I would like to give my heartiest gratitude to **Aminul Haque Russel**, Lecturer BBA Program, Daffodil Institute of IT, my internship supervisor, for his kind concern, valuable time, advice, endless endeavor and guidance throughout the internship period and making of the report. I like to give cordial gratitude to **Lakkhan Chandra Robidas**, Coordinator of BBA Program, Daffodil Institute of IT (DIIT), who helps me a lot to get the opportunity to do internship in Jamuna bank limited.

I would like to thank **Iqbal Akram Khan**, Senior Vice President & Manager, Jamuna Bank Limited my organizational supervisor, for his valuable time and constant guideline and encouragement throughout the internship period.

I would like to express my foremost gratitude to **Muhammed Jakir Hossain Talukder, Mohammad Ubydur Rahman** and other officials of Jamuna Bank Limited, who helped me and gave me their valuable time, providing me with the most relevant information on the basis of which I have prepared this report.

And finally I would like to thank of Jamuna Bank Limited, for providing me the opportunity to do my internship.

**Executive Summary**

Relationship between financial leverage financial performances is the key tools to measure the profitability and liquidity of a company. It indicates the trend of financial performances of a company which help to evaluate the company with its industry.

This report analyzes some high profile in Jamuna Bank Ltd in order to evaluate company performance and financial health. Overall company strategies were reviewed and considered along with the relationship between financial leverage and financial performance to come to a conclusion for recommendation of investment. The relation between financial leverage and financial performance covers each company’s common-size income statements and balance sheets, comparative income statements and balance sheets, and various financial statement ratios such as return on asset, return on equity, debt to equity, cash and portfolio investment to deposit ratio, net loan to total asset ratio, loan to deposit ratio non-performing loan to total loan ratio from year 2009 to year 2014.

Chapter one provides complete overview of this report. This includes Introduction, Background, Objectives, Significance, Methodology, Limitations of the Report. Chapter Two gives us Overview of companies which were selected to perform financial analysis are given briefly. Chapter Three provides Conceptual Framework whose are used to perform relationship between financial leverage and financial performance. Chapter Four arranged totally by analysis of financial position and performances with table and graph. Finally, Chapter Five represents the Findings, Recommendations and Conclusion of the Report. Through this report, I try and analyze the financial environment in which these companies are operating.

Through a detailed financial analysis, my aim to understand the financial factors is influencing these companies and decision making. Later, I try and evaluate the various ratios to appreciate their impact on these companies performance over the last six years. The financial statements of last six years are identified, studied and interpreted in light of each company’s performance. Critical decisions of Profitability measures, Liquidity measures, Credit performance and other current news are analyzed and their impacts on the bottom line of these companies are assessed.

Finally, I study ratio analysis, fund flow analysis and cash flow analysis of these companies to analyzing Profitability, Liquidity, and Creditability of these companies in last six years.

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**Acronyms**

|  |  |
| --- | --- |
| JBL | Jamuna Bank Limited |
| BBA | Bachelor of Business Administration |
| SPSS | Statistical Package of Social Science |
| SWIFT | The Society for Worldwide Interbank Financial Telecommunication |
| IT | Information Technology |
| ATM | Automated Tailor Machine |
| CSR | Customer Service Relationship |
| MD | Managing Directors |
| VP | Vice President |
| ROA | Return on Asset |
| ROE | Return on Equity |
| CPIDR | Cash & Portfolio Investment and Deposit Ratio |
| NLTA | Net Loan to Total Asset |
| LDR | Loan to Deposit Ratio |

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**Chapter 1**

**Introduction**

**1.1 Introduction**

Bank is the lifeblood of an economy to keep the wheels moving forward and to play the pivotal role in the economic development of the country. The present economic state of Bangladesh demands immediate development of the financial institutions. Banking sector has lot of areas to improve upon. One of the measures to improve this condition is to introduce tailor made professional programs that are designed to develop the managerial efficiency. I had to undergo a three months internship program which is a practical orientation stage and will definitely guide to employ the potentials to build up a successful professional career. After participating in the internship program conducted on Jamuna Bank Limited I have assigned to submit a report on Relationship between Financial Leverage and Financial Performance – a study on Jamuna Bank Limited. The report helps significantly to build a perception about day to day financial affairs of the bank.

**1.2 Background of the Report**

Internship is a prerequisite for completing the practical side to fulfill the BBA program. Theoretical sessions alone cannot make a business student efficient and perfect in handling the real life business situation. Only a lot of knowledge will be little important unless it is applicable in practical life. So we need proper application of our knowledge to get some benefit from our theoretical knowledge to make it more fruitful. When we engage ourselves in such fields to make proper use of our theoretical knowledge in our practical life situation, only then we come to know about the benefit of the theoretical knowledge.

I have worked in various Department of Jamuna Bank Ltd, Moulvi bazar Branch. In this report, I will try to make an overall analysis on all activities of Jamuna Bank Ltd specially focuses on green banking.

**1.3 Objective of the Report**

The main objective of writing this report is to show the effect of financial leverage on financial performance i.e. the relationship between financial leverage and financial performance. The others objectives can be stated as under:

* To measure the financial performance of Jamuna Bank Limited.
* To show the concept of financial leverage and financial performance.
* To measure the profitability of Jamuna Bank Limited.
* To assess the liquidity performance of Jamuna Bank Limited
* To fulfill the partial requirements of the BBA program.

**1.4 Significance of the study**

This program helped me to understand the organizational norms, corporate culture and investment decision and customer satisfaction of an organization. The topic was quite interesting, that encourage me to put my effort to analyze the non-performing loans of JBL. I expect that this experience during my internship will assist me to enhance my career development.

**1.5 Methodology of the study**

This report uses a quantitative financial ratio analysis to show the relationship between financial leverage and financial performance of Jamuna bank limited.

**Variables:**

**Independent Variable:** Independent variable used in this study is financial Performance of Jamuna bank limited which is measured by Using ratios Return on Assets, Net profit margin, Return on equity, cost to income, total loan to deposit, non-performing loan to total loan, and cash & portfolio investment to deposit.

**Dependent variable:** In this study we use financial leverage as dependent variable which is measured by using Debt toequity ratio.

**Data collection:**

Secondary data is used in this report.The secondary sources of information are given below:

* Annual report of the Jamuna Bank Limited.
* Website of the Jamuna Bank Limited.
* Theoretical books relating to financial statement analysis.
* Internet
* Others

**Statistical Techniques:**

Descriptive statistics is used to describe and summarize the behavior of the variables in this study. Correlationhas been brought into play to find out the Relationship between financial performanceand financial leverage. Data collected is analyzed using SPSS Software.

**1.6 Limitations of the Study**

This study was not free from limitations. It is important to note that these limitations have somehow contributed in developing animpressive and outstanding report. Below these limitations are:

* Major limitation of this report was time constrained.
* The annual report and websites were the main secondary information source that weren’t enough to complete the report.
* While collecting data, they did not disclose more information due to the confidentially of the organization.
* There is no experience in such type work. So, this is the core obstacle for preparing the report. Therefore, there is a chance of having some mistake in the report though best effort has been applied to avoid any kind of mistake.

**Chapter 2**

**Organizational Overview**

**2.1 Introduction**

Jamuna Bank Ltd. is a third generation bank in Bangladesh. It provides commercial banking services in the Bangladesh. It is playing an important role to develop the business sector. The growth of this bank is very good. Its motto is to provide a prompt and quick service to the clients. Jamuna Bank Ltd. has implemented well-structured online banking systems that make it easier to provide prompt services to the customer. The bank primarily engages in corporate banking, trade finance, project finance, retail banking, small enterprise finance, consumer finance, and syndication. Its range of service offerings include cash management services, payments and clearings, safe deposit locker services, employee benefits, collection services, treasury services, asset management, services and SWIFT for foreign trade.

**2.2 History**

Jamuna Bank Limited (JBL) is a Banking Company registered under the Companies Act, 1994 of Bangladesh with its Head Office currently at HadiMansion, 2, Dilkusha C/A, Dhaka-1000, Bangladesh. The Bank started its operation from 3rd June 2001.

The Bank provides all types of support to trade, commerce, industry and overall business of the country. JBL's finances are also available for the entrepreneurs to set up promising new ventures and BMRE of existing industrial units. Jamuna Bank Ltd., the only Bengali named 3rd generation private commercial bank, was established by a group of local entrepreneurs who are well reputed in the field of trade, commerce, industry and business of the country.

The Bank offers both conventional and Islamic banking through designated branches. The Bank is being managed and operated by a group of highly educated and professional team with diversified experience in finance and banking. The Management of the bank constantly focuses on understanding and anticipating customers' needs. Since the need of customers is changing day by day with the changes of time, the bank endeavors its best to device strategies and introduce new products to cope with the change. Jamuna Bank Ltd. has already achieved tremendous progress within its past 10 years of operation. The bank has already built up reputation as one of quality service providers of the country.

At present the Bank has real-time Online banking branches (of both Urban and Rural areas) network throughout the country having smart IT-backbone. Besides traditional delivery points, the bank has ATMs of its own, sharing with other partner banks and consortium throughout the country.

The operation hour of the Bank is 10:00 A.M. To 6:00 P.M. from Sunday to Thursday with transaction hour from 10:00 A.M. to 4:00 P.M. The Bank remains closed on Friday, Saturday and government holidays.

**2.3 Mission and Vision**

**Vision**

To become a leading banking institution and to play a significant role in the development of the country.

**Mission**

The Bank is committed for satisfying diverse needs of its customers through an array of products at a competitive price by using appropriate technology and providing timely service so that a sustainable growth, reasonable return and contribution to the development of the country can be ensured with a motivated and professional work-force.

**2.4 Strategic Priority**

* Delivering customer’ desired products and services to create true customers’ value.
* Focusing on export of both traditional and nontraditional items and remittance to ensure a comfortable position of foreign exchange all the time.
* Doing businesses that have higher risk adjusted return.
* Focusing on maintenance of assets quality rather than its aggressive expansion.
* Changing the deposit mix thereby reduce the cost of deposits.
* Ensuring all modern alternative delivery channels for easy access to our services by customers.
* Taking banking to the doorstep of our target group.
* Restructuring existing products and introducing new products to meet the demand of time and the target group.
* Entering into new avenues of business to increase profitability.
* Bringing unbanked people into our delivery channels.
* Increasing fee based service/activities where costly capital is not changed.
* Ensuring organizational efficiency by continuous improvement of human capital and motivation level, dissemination of information and thereby ensuring a sustainable growth of the organization.
* Maximizing shareholders’ value at all times alongside ensuring a sustainable growth of the organization.
* Pursuing CSR activities for our continued support to future generation, distressed people and for advancement of underprivileged people of the country.
* Establishing the brand image as a growth supportive and pro-customers’ bank.
* Strengthening risk management techniques and ensuring compliance culture.
* Remaining cautious about environment and supporting for maintaining a green and clean soil.

**2.5 Objectives**

* To earn and maintain CAMEL Rating 'Strong'
* To establish relationship banking and improve service quality through development of Strategic Marketing Plans.
* To remain one of the best banks in Bangladesh in terms of profitability and assets quality.
* To introduce fully automated systems through integration of information technology.
* To ensure an adequate rate of return on investment.
* To keep risk position at an acceptable range (including any off balance sheet risk).
* To maintain adequate liquidity to meet maturing obligations and commitments.
* To maintain a healthy growth of business with desired image.
* To maintain adequate control systems and transparency in procedures.
* To develop and retain a quality work-force through an effective human Resources Management System.
* To ensure optimum utilization of all available resources.
* To pursue an effective system of management by ensuring compliance to ethical norms, transparency and accountability at all levels.

**2.6 Values**

* Customer Focus
* Integrity
* Quality
* Teamwork
* Respect for the individual
* Harmony
* Fairness
* Courtesy
* Commitment
* Respectable Citizenship
* Business Ethics
* Unique Culture

**2.7 Corporate Slogan**

**“YOUR PARTNER FOR GROWTH”**

**2.8 Organization Structure**

The Management structure of Jamuna Bank Limited is given below with the chart:-



 Figure: The Organization Structure of Jamuna Bank Limited

**2.9 Service & Product of JBL**

The Bank has an array of tailor made financial products and services. Such, products are Monthly Savings Schemes, Consumer Credit Scheme, Lease Finance, and Personal Loan for Women, and Shop Finance Scheme etc. JBL also introduced Q-cash ATM cards for its valued customers giving 24 hours banking services through Debit Cards. JBL offers the following services to its valued customer-

* Deposit Schemes
* Remittance and Collection
* Import and Export handling and finance
* Loan syndication
* Project finance
* Investment Banking
* Lease Finance
* Hire Purchase
* Personal Loan for Woman
* 24-hours Banking: Q-Cash ATM facility
* Islamic Banking
* Corporate Banking
* Consumer Credit Scheme
* International Banking.

**2.10 Corporate Banking**

Jamuna Bank Ltd. offers a complete range of advisory, financing and operational services to its corporate client groups combining trade, treasury, investment and transactional banking activities in one package. The corporate Banking specialists will render high class service for speedy approvals and efficient processing to satisfy customer needs.

Corporate Banking business envelops a broad range of businesses and industries. We can leverage on the know-how in the following sectors mainly -

* Agro processing industry
* Industry (Import Substitute / Export oriented)
* Textile Spinning, Dyeing / Printing
* Export Oriented Garments, Sweater.
* Food & Allied
* Paper & Paper Products
* Engineering, Steel Mills
* Chemical and chemical products etc.
* Telecommunications.
* Information Technology
* Real Estate & Construction ·
* Wholesale trade
* Transport · Hotels, Restaurants ·
* Non-Bank Financial Institutions
* Loan Syndication ·
* Project Finance · Investment Banking
* Lease Finance · Hire Purchase · International Banking

**Chapter 3**

**Conceptual Framework**

**3.1. Return on Assets (ROA)**

**Return on Assets (ROA) = net profit/total assets** shows the ability of management to acquire deposits at a reasonable cost and invest them in profitable investments (Ahmed, 2009). This ratio indicates how much net income is generated per TK of assets. Return on assets indicates the profitability on the assets of the Bank after all expenses and taxes (Van Horne 2005). It is a common measure of managerial performance (Ross, Westerfield, Jaffe 2005). It measures how much the firm is earning after tax for each Taka invested in the assets of the firm. That is, it measures net earnings per unit of a given asset, moreover, how bank can convert its assets into earnings (Samad & Hassan 2000). Generally, a higher ratio means better managerial performance and efficient utilization of the assets of the firm and lower ratio is the indicator of inefficient use of assets. ROA can be increased by Banks either by increasing profit margins or asset turnover but they can’t do it simultaneously because of competition and trade-off between turnover and margin. So bank maintain higher ROA will make more the profit.

**3.2. Return on Equity (ROE)**

**Return on Equity (ROE) = net profit/ total equity**. ROE is the most important indicator of a bank’s profitability and growth potential. It is the rate of return to shareholders or the percentage return on each TK of equity invested in the bank. Return on equity indicates the profitability to shareholders of the Bank after all expenses and taxes (Van Horne 2005). It measures how much the firm is earning after tax for each Taka invested in the Bank. In other words, ROE is net earnings per dollar equity capital. (Samad& Hassan 2000). It is also an indicator of measuring managerial efficiency [(Ross 1994), Sabi (1996), Hassan (1999), and Samad (1998). By and large, higher ROE means better managerial performance; however, a higher return on equity may be due to debt (financial leverage) or higher return on assets. Financial leverage creates an important difference between ROA and ROE in that financial leverage always magnifies ROE. This will always be the case as long as the ROA (gross) is greater the interest rate on debt (Ross, Westerfiled, Jaffe 2005). Usually, there is higher ROE for high growth companies.

**3.3. Cost to Income Ratio (C/I)**

**Cost to Income Ratio (C/I) = total cost /total income** measures the income generated per Taka cost. That is how expensive it is for the bank to produce a unit of output. In managerial aspects its show how much a manager can efficiently operate the bank activity as much as lower cost against income generate from operation. The lower the C/I ratio, the better the performance of the bank.

**3.4. Cash & Portfolio Investment to Deposit Ratio (CPIDR)**

**Cash & Portfolio Investment to Deposit Ratio (CPIDR) = Cash & Portfolio Investment / Deposits**. This ratio indicates the percentage of short term obligations that could be met with the bank’s liquid assets in the case of sudden withdrawals. The measure of liquidity of the bank is the cash and portfolio investments to deposit ratio. The higher the ratio the better is the liquidity position of the bank, therefore, the more is the confidence and trust of the depositors in the bank as compared to the bank with lower CPIDR. This ratio serves two purposes. First, it boosts the trust of the depositors in the bank as the depositors know that bank is not only having enough cash but also made some investments in securities portfolio and supposedly earning some positive returns on those portfolio investments. Secondly, they feel confident that in need of cash bank may sell these portfolio investments at any time in the secondary market which is readily available for this purpose.

**3.5. Net Loans to total asset ratio (NLTA)**

**Net Loans to total asset ratio (NLTA) = Net loans/total assets NLTA** measures the percentage of assets that is tied up in loans. Net loan to total assets ratio (NLTA) is also another important ratio that measures the liquidity condition of the bank. Whereas Loan to Deposits is a ratio in which liquidity of the bank is measured in terms of its deposits, NLTA measures liquidity of the bank in terms of its total assets. That is, it gauges the percentage of total assets the bank has invested in loans (or financings). The higher is the ratio the less the liquidity is of the bank. Similar to LDR, the bank with low NLTA is also considered to be more liquid as compared to the bank with higher NLTA. However, high NLTA is an indication of potentially higher profitability and hence more risk. The higher the ratio, the less liquid the bank is.

**3.6. Loans to deposit Ratio (LDR)**

**Loans to deposit Ratio (LDR) = Loans/total deposits.** Loan to deposit is the most important ratio to measure the liquidity condition of the bank. Here, loan means the advances for the conventional banks. Bank with Low LDR is considered to have excessive liquidity, potentially lower profits, and hence less risk as compared to the bank with high LDR. However, high LDR indicates that a bank has taken more financial stress by making excessive loans and also shows risk that to meet depositors’ claims bank may have to sell some loans at loss. A high figure denotes lower liquidity.

**3.7. Nonperforming Loans to Total Loan (NPLTL)**

**Nonperforming Loans to Total Loan (NPLTL) = Nonperforming Loans /Total loans**. This ratio indicates the proportion of the total loans that has been set aside but not charged off. It is percentage of total loan that has been either in default or close to being in default. Once a loan is nonperforming, the odds that it will be repaid in full are considered to be substantially lower. If the debtor starts making payments again on a nonperforming loan, it becomes a non-performing loan, even if the debtor has not caught up on all the missed payments (Investopedia). Institutions holding nonperforming loans in their portfolios may choose to sell them to other investors in order to get rid of risky assets and clean up their balance sheets. Sales of nonperforming loans must be carefully considered since they can have numerous financial implications, including affecting the company's profit and loss, and tax situations.

**Chapter 4**

**Analysis**

**4.1.Return on Asset**

Formula, ROA = $\frac{Netincome }{Total Asset} ×100$

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Value |  2.30% | $$1.80\%$$ | $$1.69\%$$ | $$1.06\%$$ | $$1.01\%$$ | $$1.06\%$$ |

 **Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**4.1.Graph: Return on Asset of JBL**

**Interpretation:** Return on Asset of Jamuna Bank Limited is decreasing 2009 to 2013.Then the return on asset of Jamuna Bank Limited is increased year 2014.Because the assets of Jamuna Bank Limited are not used properly.

**4.2. Return on Equity**

Formula, ROE = $\frac{Netincome }{Total Equity} ×100$

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Value | 28.15% | $$19.87\%$$ | $$20.20\%$$ | $$13.97\%$$ | $$13.17\%$$ | $$13.68\%$$ |

 **Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**4.2. Graph: Return on Equity of JBL**

**Interpretation:** From the analysis of return on equity are decreasing 2009 to 2010.Then the return on equity are increased year 2011 but the return on equity are decreasing in year 2012 to 2013. In 2014 return on equity are little increased. This reason is the share markets are decreasing day by day.

**4.3. Debt to Equity Ratio**

Formula, Debt to Equity Ratio = $\frac{Total debt }{Total Equity} ×100$

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Value | 8.11% | $$7.76\%$$ | $$7.77\%$$ | $$6.59\%$$ | $$7.61\%$$ | $$7.21\%$$ |

 **Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**4.3.Graph: Debt to Equity Ratio of JBL**

**Interpretation:** Debt to equity ratio is decreased from 2009 to 2010 but in 2011 the debt to equity ratio are little increased. In 2012 debt to equity ratio are decreased but in 2013 again the debt to equity ratio are increased. Proportion of increasing shareholders equity is higher than Long term debt or others Liabilities.

**4.4. Cash and portfolio investment to deposit ratio**

Formula, Cash and portfolio investment to deposit ratio = $\frac{ Cash and portfolio investment}{Deposit} ×100$

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Value | 20.04% | $$17.95\%$$ | $$23.14\%$$ | $$49.13\%$$ | $$32.20\%$$ | $$34.86\%$$ |

 **Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**4.4. Graph: Cash and portfolio investment to deposit ratio of JBL**

**Interpretation:** From the analysis of last 3 years its shows that there cash & portfolio investment ratio are lower. But in 2012 the ratio are increased and 2013 to 2014 are some fluctuates. For this reason cash and portfolio investment are increased from 2011 to 2014

**4.5. Net loan to total asset ratio**

Formula, Net loan to total asset ratio = $\frac{Net loan }{Total Asset} ×100$

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Value | 66.25% | $$70.29\%$$ | $$65.02\%$$ | $$50.04\%$$ | $$58.50\%$$ | $$55.87\%$$ |

 **Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**4.5. Graph: Net loan to total asset ratio of JBL**

**Interpretation:** From the year 2009 to 2010 the ratio are increased but in 2011 to 2012 the ratio are decreasing. In 2013 to 2014 the net loan to total asset ratio are increased. For this reason the net loan are increased higher than the total asset.

**4.6. Loan to deposit ratio**

Formula, Loan to deposit ratio = $\frac{Loan }{Deposit} ×100$

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Value | 76.23% | $$81.97\%$$ | $$80.29\%$$ | $$68.93\%$$ | $$69.41\%$$ | $$67.95\%$$ |

 **Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**4.6.Graph: Loan to deposit ratio of JBL**

**Interpretation:** From this analysis its shows that the year 2009 to 2010 the ratio are increased and then year 2011 to 2012 the ratio are decreased. But in 2013 the loan to deposit ratio are increased again 2014 the loan to deposit ratio are decreased.

**4.7. Non-performing loan to total loan ratio**

Formula, Non-performing loan to total loan ratio = $\frac{Non-performing loan }{Total loan} ×100$

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Value | 2.20% | $$1.82\%$$ | $$2.86\%$$ | $$9.73\%$$ | $$7.59\%$$ | $$5.68\%$$ |

 **Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**4.7. Graph: Non-performing loan to total loan ratio of JBL**

**Interpretation:** From thus analysis of last 4 years its shows that the ratio are increasing except year 2010. But in 2013 to 2014 the non-performing loan to total loan ratio are decreased. For this reason the non-performing loan are increased higher than total loan.

**4.8. Cost to income ratio:**

Formula,Cost to income ratio== $\frac{Cost }{Net income} ×100$

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Value | 34.62% | 35.65% | 42.08% | 39.32% | 47.32% | 49.61% |

 **Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**4.8. Graph: Cost to Income ratio of JBL**

**Interpretation:** From thus analysis of last 3 years its shows that the ratio are increased in 2009 to 2011. But in 2012 the ratio are decreased again the cost to income ratio are increased in year 2013 to 2014. For this reason the cost are increased but the income are stable.

**4.9. Net profit margin ratio:**

Formula,Cost to income ratio== $\frac{Net profit}{Net sales} ×100$

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Value | 31.53% | 28.46% | 27.35% | 19.72% | 20.14% | 22.12% |

 **Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**4.9. Graph: Net profit margin ratio of JBL**

**Interpretation:** Net profit margin of Jamuna Bank Limited is decreasing from 2009 to 2013.But in 2014 the net profit margin ratio are increased. For this reason the net profit of this company are decreasing day to day.

**Correlations:**

To find out the relationship between financial leverage and financial Performance correlation analysis has been brought into as follows –

|  |
| --- |
| **Correlations** |
|  | Return on asset | Net profit margin | Return on equity | Cost to Income ratio | Cash and portfolio investment to deposit | Net loan to total loan | Loan to deposit | Non-performing loan to total loan | Debt to equity ratio |
| Return on asset | Pearson Correlation | 1 | .981\*\* | .987\*\* | -.783 | -.795 | .809 | .767 | -.852 | **.772** |
| Sig. (2-tailed) |  | .001 | .000 | .065 | .059 | .051 | .075 | .031 | .072 |
| N | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Net profit margin | Pearson Correlation |  | 1 | .949\*\* | -.696 | -.869 | .873\* | .816 | -.935\*\* | **.810** |
| Sig. (2-tailed) |  |  | .004 | .125 | .025 | .023 | .048 | .006 | .051 |
| N |  | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Return on equity | Pearson Correlation |  |  | 1 | -.753 | -.725 | .722 | .666 | -.783 | **-.747** |
| Sig. (2-tailed) |  |  |  | .084 | .103 | .105 | .148 | .065 | .088 |
| N |  |  | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Cost to Income ratio | Pearson Correlation |  |  |  | 1 | .407 | -.525 | -.652 | .477 | **-.323** |
| Sig. (2-tailed) |  |  |  |  | .423 | .285 | .161 | .339 | .532 |
| N |  |  |  | 6 | 6 | 6 | 6 | 6 | 6 |
| Cash and portfolio investment to deposit | Pearson Correlation |  |  |  |  | 1 | -.982\*\* | -.822 | .955\*\* | **-.944** |
| Sig. (2-tailed) |  |  |  |  |  | .000 | .045 | .003 | .005 |
| N |  |  |  |  | 6 | 6 | 6 | 6 | 6 |
| Net loan to total loan | Pearson Correlation |  |  |  |  |  | 1 | .899 | -.945\*\* | **.888** |
| Sig. (2-tailed) |  |  |  |  |  |  | .015 | .004 | .018 |
| N |  |  |  |  |  | 6 | 6 | 6 | 6 |
| Loan to deposit | Pearson Correlation |  |  |  |  |  |  | 1 | -.851 | **.663** |
| Sig. (2-tailed) |  |  |  |  |  |  |  | .032 | .151 |
| N |  |  |  |  |  |  | 6 | 6 | 6 |
| Non-performing loan to total loan | Pearson Correlation |  |  |  |  |  |  |  | 1 | **-.847** |
| Sig. (2-tailed) |  |  |  |  |  |  |  |  | .033 |
| N |  |  |  |  |  |  |  | 6 | 6 |
| Debt to equity ratio | Pearson Correlation |  |  |  |  |  |  |  |  | 1 |
| Sig. (2-tailed) |  |  |  |  |  |  |  |  |  |
| N |  |  |  |  |  |  |  |  | 6 |
| \*\*. Correlation is significant at the 0.05 level (2-tailed). |

Correlation results demonstrate that there is certain relationship between Return on Asset and debt to equity proportion of 0.772 and the result is significant at 5% significance level. Return on equity has negative relationship with debt to equity and the result is significant at 5% significance level, which depicts that as leverage increases Shareholders will be hesitant to invest in company with high debt proportion, as a result return on equity will also decreases and will also have negative implications for EPS also as finance cost increases with high leverage.

Net profit margin shows a positive relationship with debt to equity of 0.810 at 1% significance level, which means that as Leverage Increases Company will have more capital available for investment and new business Ventures and will also results in increase in profitability margins for the company. On the other hand, Cost to Income ratio, Cash and portfolio investment to deposit, Non-performing loan to total loan all factors, has also resulted in negative relationship with debt to equity ratio. Finally, there are positive relationship net loan to total loan and loan to deposit ratio, because deposit is the main sources of capital for any banks.

**Chapter 5**

**Findings, Recommendations & Conclusion**

**5.1. Findings**

From the ratio and correlation analysis of this report some of the findings are extracted. These are the shows the relationship between financial leverage and financial performance of the Jamuna bank limited. These findings are mentioned in followings:

* From the ratio analysis, we see that, return on asset of Jamuna Bank Limited is decreased from year 2009 to 2014. But still they have the opportunity to increase their return on asset. Also, from the correlation analysis, there is a positive relationship between Return on Asset and Debt to equity
* Analysis reveals that, return on equity of Jamuna Bank Limited is increased from year 2009 to 2014. Other analysis shows that the Correlation between Return on equity and debt to equity shows negative.
* Cash and portfolio investment to deposit ratio of Jamuna Bank Limited sometimes become fluctuates. Statistics analysis shows that, the correlation between cash and portfolio investment and deposits are indicating negative relationship.
* Net loan to total assets ratio of Jamuna Bank Limited is fluctuates a lot in between analysis period. But, the correlations between net loan to total asset and debt to equity are shows positive relationship.
* From the analysis of loan to deposit ratio of Jamuna Bank Limited, we see that are increased from year 2009 to 2011, then the ratio are decreased from year 2012 to 2014. Correlation analysis depicts that there is a positive relationship between loans to deposit ratio.
* Non-performing loan to total loan ratio sometimes become fluctuates in between analysis period. This analysis shows that the negative correlations between debt to equity ratio.
* Cost to income ratio is increased from year 2009 to 2014. It shows that the positive relationship between debt to equity and cost to income ratio.
* Net profit margin ratio of Jamuna Bank Limited is decreased from year 2009 to 2013 then the ratios are increased in 2014. It shows that the positive correlation between debt to equity and net profit margin ratio.

**5.2. Recommendations**

After evaluating the findings of this report it is to be mentioned that some recommendations of these also identified. These could make the financial performances and position better. These are followings:

* ROA can be increased by Banks either by increasing profit margins or asset turnover but they can’t do it simultaneously because of competition and trade-off between turnover and margin. So bank maintain higher ROA will make more the profit.
* By and large, higher ROE means better managerial performance; however, a higher return on equity may be due to debt (financial leverage) or higher return on assets. Financial leverage creates an important difference between ROA and ROE in that financial leverage always magnifies ROE. So, bank should maintain it.
* Total debt of Jamuna Bank Limited must not exceed its total assets.
* Jamuna Bank Limited can identify how cash can be utilized more effectively to increase the net sales volume.
* Jamuna Bank Limited can give more effort to increased wealth which led to increased net asset value.
* Jamuna Bank Limited must be investing the deposit of public in suitable sources.
* Company should set a goal to attain satisfactory gross profit margin. Some are stable in specific percentage over the years. They should take initiatives to increases it.Net income of a company leads the earnings per share, which company’s net profit margin is high. Company can try to increase their net profit as well as EPS.
* However, high non-performing to total assets is an indication of potentially higher profitability and hence more risk. The higher the ratio, the less liquid the bank is.
* Enough Cash should keep always in every company’s account to meet any unpredictable urgency

**5.3. Conclusion**

A general concept exists that financial leverage has significant impact on the financial performance of the companies. This study is also conducted to find out the relationship between financial leverage and financial performance of Jamuna Bank limited. The results of the study show a positive relationship between financial leverage and financial performance. The results show positive relationship of ROA, NP margin with debt to equity ratio, whereas negative relationship of ROE with debt to equity ratio. As a result this organization can enhance their performance and profitability margins by having a significant leverage proportion in their capital structures.

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**Others Resource**

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2. Official website of Bangladesh Bank: <https://www.bb.org.bd>

**APPENDIX**

**Return on Asset**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| **Value** | $$\frac{1120.81 }{48730.95}$$ | $$\frac{1273.56}{70753.37}$$ | $$\frac{1471.40 }{87065.13}$$ | $$\frac{1162.59 }{109678.51}$$ | $$\frac{1168.38 }{115681.64}$$ | $$\frac{1478.64 }{139494.6}$$ |

 **Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**Return on Equity**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| **Value** | $$\frac{1120.81 }{3980.88}$$ | $$\frac{\begin{array}{c}\\1273.56 \end{array}}{6408.55}$$ | $$\frac{1471.40 }{1471.40}$$ | $$\frac{1162.59 }{1162.59}$$ | $$\frac{1168.38 }{8880.94}$$ | $$\frac{1478.64 }{10810.67}$$ |

**Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**Debt to Equity Ratio**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| **Value** | $$\frac{32286.66 }{3980.88}$$ | $$\frac{\begin{array}{c}\\49734.80 \end{array}}{6408.19}$$ | $$\frac{56611.79 }{7281.51}$$ | $$\frac{54887.03 }{83224.83}$$ | $$\frac{67669.38 }{8880.94}$$ | $$\frac{77899.79 }{10810.67}$$ |

**Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**Cash and portfolio investment to deposit ratio**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| **Value** | $$\frac{8503.44 }{42356.2}$$ | $$\frac{\begin{array}{c}\\10891.02 \end{array}}{60673.56}$$ | $$\frac{16314.93 }{70508.05}$$ | $$\frac{39118.93 }{79623.13}$$ | $$\frac{31392.20 }{97485.61}$$ | $$\frac{39963.54 }{114635.15}$$ |

**Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**Net loan to total asset ratio**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| **Value** | $$\frac{32287.66 }{48730.95}$$ | $$\frac{\begin{array}{c}\\49734.80 \end{array}}{70753.37}$$ | $$\frac{56611.79 }{87065.13}$$ | $$\frac{54887.03 }{109678.51}$$ | $$\frac{67669.38 }{115681.64}$$ | $$\frac{77899.79}{139494.6}$$ |

**Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**Loan to deposit ratio**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| **Value** | $$\frac{32287.66 }{42356.2}$$ | $$\frac{\begin{array}{c}\\49734.80 \end{array}}{60673.56}$$ | $$\frac{56611.79 }{70508.05}$$ | $$\frac{54887.03 }{79623.13}$$ | $$\frac{67669.38 }{97485.61}$$ | $$\frac{77899.79 }{114635.15}$$ |

**Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**

**Non-performing loan to total loan ratio**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| **Value** | $$\frac{710.85 }{32287.66}$$ | $$\frac{\begin{array}{c}\\905.52 \end{array}}{49734.80}$$ | $$\frac{1618.73 }{56611.79}$$ | $$\frac{5337.87 }{54887.03}$$ | $$\frac{5133.76 }{67669.38}$$ | $$\frac{4422.15 }{77899.}$$ |

**Source: Annual report of Jamuna Bank ltd. (2009 to 2014)**