

Internship Report on:

The Determinants of Profitability of BRAC Bank



ব্র্যাক ব্যাংক



Internship Report on:

The Determinants of Profitability of BRAC Bank

Course Code: BUS400

Guided by

Mr. Ahmed Abir Choudhury
Lecturer
BRAC Business School
BRAC University

Clary Robin Baul
Associate Manager
Products, Deposit &NFB
BRAC Bank

Submitted By

Md. Kazi Abul Kalam Azad
ID-14304056
BRAC Business School
BRAC University

Date of Submission:

15th December 2018

Letter of Transmittal

15th December, 2018

Mr. Ahmed Abir Choudhury

Lecturer,

BRAC Business School

BRAC University 66, Mohakhali

Dhaka 1212, Bangladesh.

Subject: Submission of Internship Report on, “**The determinants of profitability of BRAC Bank**”.

Dear Sir,

This is my pleasure to get the opportunity to submit my Internship Report on “**The determinants of profitability of BRAC Bank**”, which was assigned by you as a completion of my Internship Program. Throughout my internship periods I have learned plentiful knowledge regarding the organization’s culture and most importantly operations.

I have given rigorous effort to make this report as informative, reliable and relevant as possible. In this report, I have tried to identify the major determinants that effects the profitability of BRAC Bank along with my recommendation based on my theoretical knowledge and observation.

I would like to for inspiring me to complete my internship report. Writing this report has a great experience to me and I hope you would appreciate my thoughtful approach.

Therefore, I would like to submit this report for your kind judgment and valuable suggestion.

Sincerely,

Md. Kazi Abul Kalam Azad

ID: 14304056

BRAC Business School

Letter of Endorsement

The Internship Report entitled “**The determinants of profitability of BRAC Bank**” has been submitted to BRAC Business School, for the purpose of completing the degree of Bachelor of Business Administration, by Md. Kazi Abul Kalam Azad, ID- 14304056 and concentration in Finance from BRAC University on 15th December, 2018. The report has been accepted and will be presented to the Internship Defense Committee for evaluation.

I wish every success and prosperity of his career and life.

Mr. Ahmed Abir Choudhury
Internship Supervisor Faculty
Lecturer
BRAC Business School
BRAC University

Acknowledgement

I would like to express my gratitude to Almighty ALLAH (SWT) for giving me the strength and aptitude to complete this report. Without his blessing, it would have never been possible to accomplish this report in due time.

The internship opportunity I got at **BRAC Bank Limited (BBL)** was really great. Throughout the internship period I have learned a lot of things, especially dealing with seniors professionally and appreciating others even if the task is an easier one. I consider myself a lucky person that I got the chance to work under such amazing environment.

This report is the result of many people's contribution and support. I would like to take the opportunity to show my deepest gratitude towards my academic internship supervisor faculty Mr. Ahmed Abir Choudhury, Lecturer of BRAC Business School, BRAC University for helping me with his invaluable guidance and endless support during the course of preparing this report.

My sincere gratitude goes to my company internship supervisor Mr. Clary Robin Baul, Associate Manager for answering all my inquiries with great care and patience. Without their directions, advice and helpful nature it would have been impossible to accomplish the report so smoothly.

I am very thankful to Mr. Almas Hossain, Associate Manager and Mr. Masud Rana, Senior Products Manager for their constant support and inspiration. A special thanks goes to the customers experience team, my friends and family for their sincere cooperation during the internship period.

Lastly, I am really very thankful to BRAC University, from where I have learned all the knowledge which plays a significant role in performing the given task in the organization.

Executive Summary

BRAC Bank Limited (BBL) is one of the well-known financial institutions in Bangladesh started its journey 2001. From the earliest starting point of the commercial banking industry in Bangladesh, it has been leading and adding value to the nation's economy.

The theme of my internship report is “**The Determinants of Profitability of BRAC Bank**”, which has obtained all the attention of the banking sector in Bangladesh. The main objective of this study is to identify the major determinants of BRAC Banks profitability.

This paper primarily depicts the profitability indicators of banking industry, and how they are performing in the competitive banking industry in Bangladesh. The strength of each determinants on profitability. I have described the performance and effect of each variables examines in this study.

In this report, I have tried to discuss identify the BBL's major indicators or determinants of profitability. I have descried BBL's performance of over last five years. Therefore I have taken two different variables and run the regression and correlation analysis to find out their effectiveness on profitability.

Lastly, I have made a few proposal depending on the discoveries of the report. This report can help BRAC Bank Limited to identify the major determinants of their profitability and effectiveness of different variables on profitability.

Contents

- Organization Overview - 8 -**
 - Credit Rating - 8 -
 - Key Performance Indicator - 8 -
 - Vision - 11 -
 - Missions - 11 -
 - Core Values - 12 -
 - Corporate Organogram - 13 -

- Introduction - 14 -**
 - Rational - 14 -
 - Background - 15 -
 - Objective - 15 -

- Internship Responsibility..... - 16 -**

- Literature Review - 18 -**

- Research Methodology..... - 20 -**

- Research - 21 -**
 - Hypothesis Development - 21 -
 - Data - 22 -

- Analysis..... - 23 -**
 - Regression Analysis - 23 -
 - Hypothesis Assessment Summary - 24 -
 - Correlation - 25 -

- Limitation of the study..... - 26 -**

- Findings..... - 27 -**

- Recommendation - 28 -**

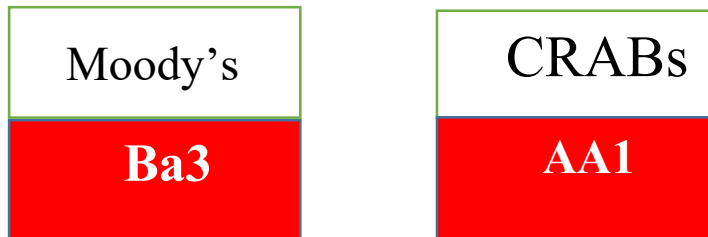
- Conclusion..... - 29 -**

- Reference - 30 -**

- Appendix..... - 31 -**

Organization Overview

BRAC Bank Limited is one of the largest and prestigious commercial bank started operating in Bangladesh since 2001. BRAC Bank has shown prominent growth in the banking sector from the very beginning. At present, the bank has emerged into a dominant player in the banking industry with 187 branches, 16 Premium Banking Lounges, 448 ATMs, 90 CDMs and 457 SME Unit Offices across the country. With a vast branch network system and a team of over 6500 employees, BRAC Bank is serving more than 1,500,000 customers by providing a diversified range of SME, Retail and Wholesale banking solutions.

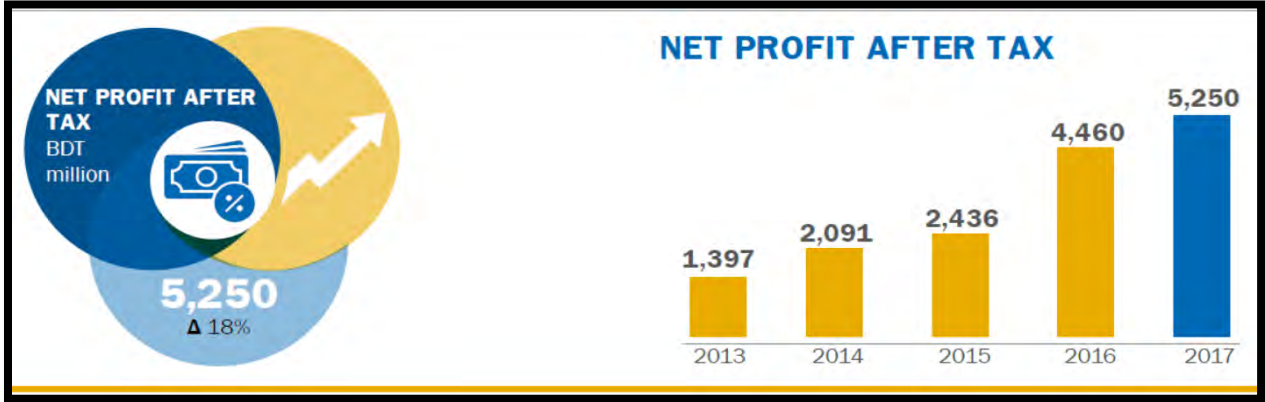


Credit Rating

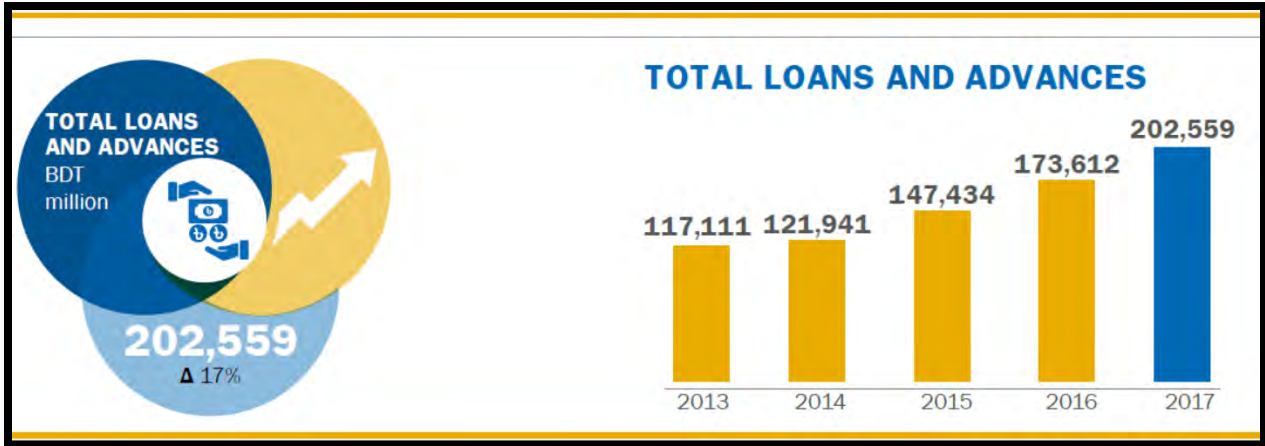
World's popular credit rating organization, Moody's has awarded BRAC Bank Limited **Ba3** for the first time, on the other side Bangladesh credit rating agency (CRAB) has rated as **AA1** rated bank in the banking industry of Bangladesh. BRAC Bank offers a range of Visa and Master cards, which is adding value to their customer's lifestyle.

Key Performance Indicator

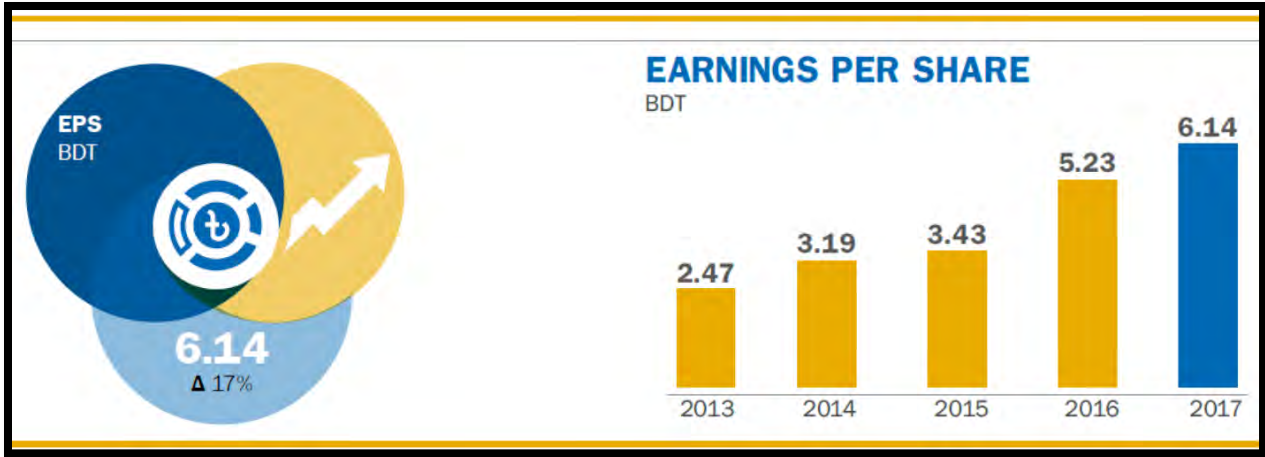
Net Profit after Tax: The BRAC Bank demonstrates that it had been very reliable throughout the previous five years. It stood at BDT 5.25M in the year of 2017. Comparing to the most recent year it showed an increase of 18% over one year. The performance of BRAC bank is very promising, so does the profit increases rapidly. These positive growth of net profit clearly indicates the better future of BRAC Bank.



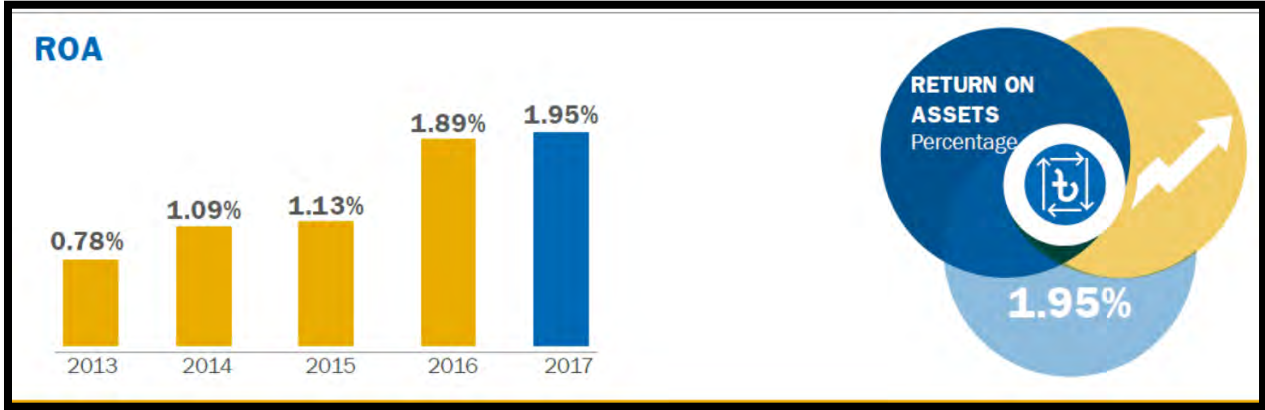
Loans and Advances: There is a decent growth in loan and advances over the last five years and which is possible because of their continuous diversification in terms of loan granting. There is a 17% positive changes take place in comparison with last year.



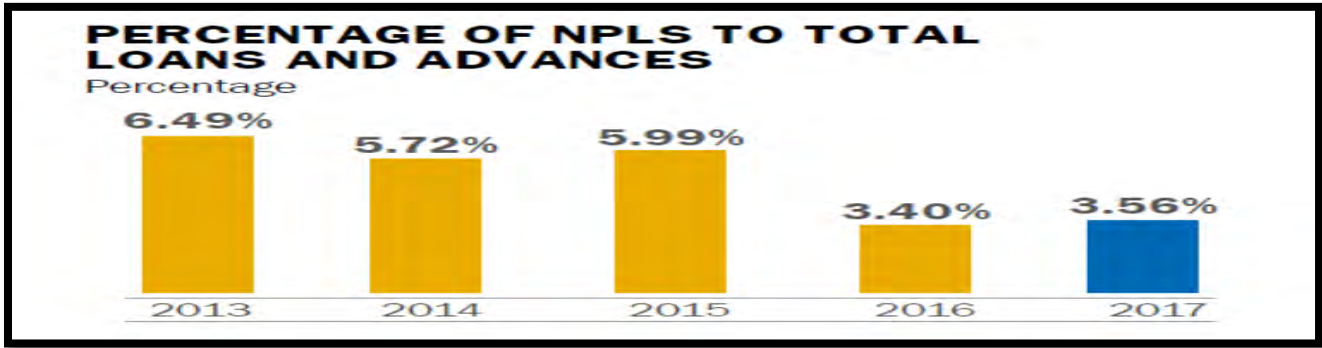
Earnings Per Share: In 2017, the earning per share stood up to 6.14, which was 5.23 in the last year. As the profit increase the earning per share also increases. There is a 17% growth of EPS indicates that BRAC Bank is capable of generating significant dividend for their investor in comparison to last year.



Return on asset: Return on asset measures the profitability of any organization. By reviewing the last five years performance we can say that the performance of BRAC bank is growing fast with a positive change.



Non-performing loan: Non-performing loan ratio specifies the effectiveness of bank in receiving payments on its loans. In 2017 the NPL increases slightly because of corporate NPL but the NPL in SME section and retail section decreases which is a positive sign for BRAC Bank.



BRAC bank performance over the last five years was very progressive. Their performance clearly signifies their strong position in the market.

Vision

“Building a profitable and socially responsible financial institution focused on market and business with growth potential, thereby assisting BRAC and its stakeholders build a just, enlightened, healthy, democratic and poverty free Bangladesh”.

Missions

- ✓ Continued development in Small & Medium Enterprise(SME) sector
- ✓ Have structured and continuous growth in low-cost deposit and retail assets.
- ✓ Fund Corporate Assets through self-liability mobilization and grow assets through syndications and investment in faster growing sectors.
- ✓ Make constant effort to raise non-funded income
- ✓ Keep debt charges at 2% to maintain a steady profitable growth

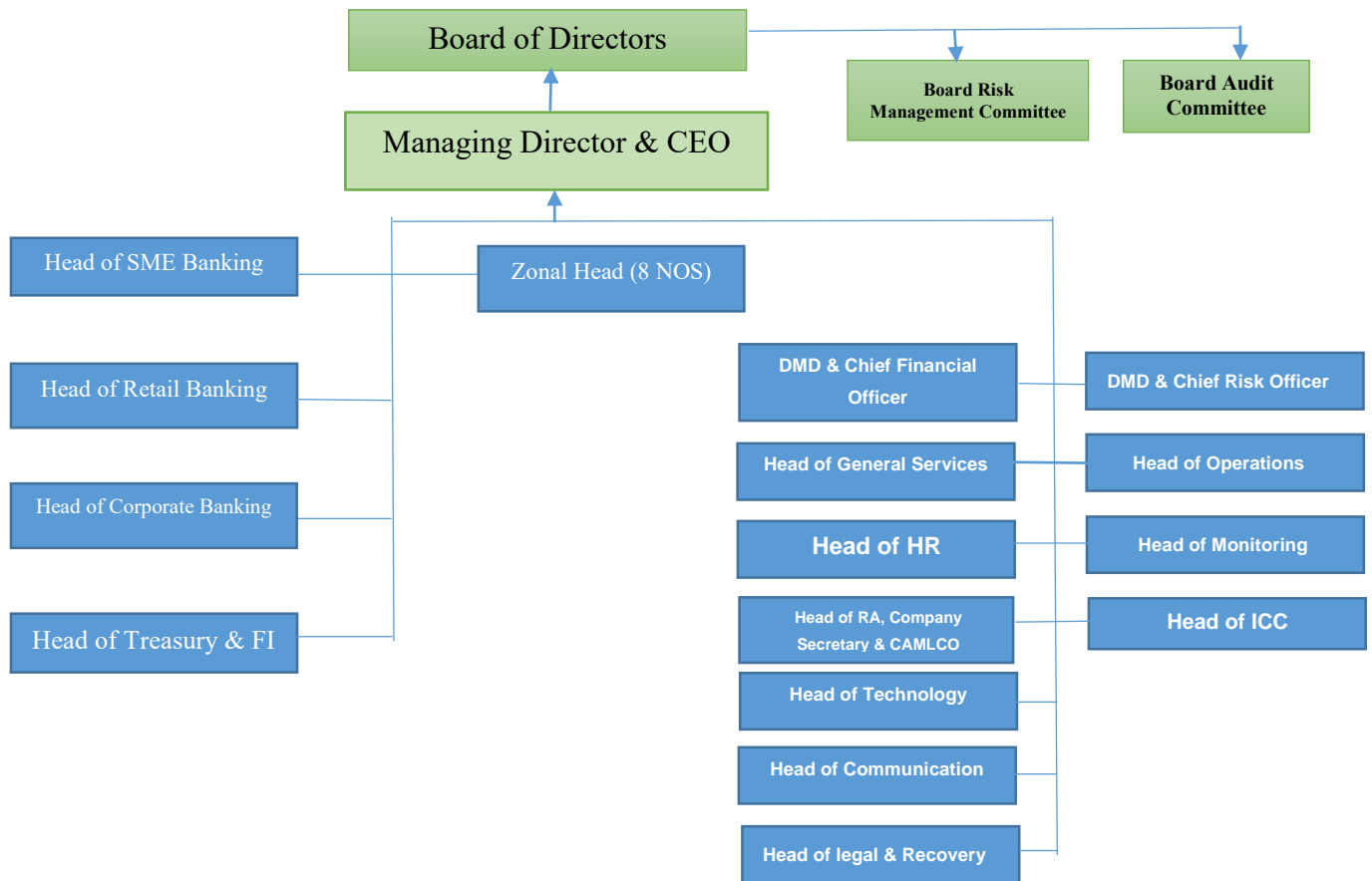
- ✓ Attain efficient collaborations between the branches, SME unit offices and BRAC field offices for delivery of remittance and Bank’s other products and services
- ✓ Manage various lines of business with a diverse, fully dedicated team and well regulated environment with no compromise on service quality
- ✓ Have a highly driven team entirely devoted to materialize the bank’s vision into reality.

Core Values

BRAC Bank's core values comes from its owner – BRAC, which mean that whatever they do they will follow these values as directed by BRAC.

- ✓ Value the fact that one is a member of the BRAC family
- ✓ Creating an honest, open and enabling environment
- ✓ Have a strong customer focus and build relationships based on integrity, superior service and mutual benefit
- ✓ Strive for profit & sound growth
- ✓ Work as team to serve the best interest of the owners
- ✓ Relentless in pursuit of business innovation and improvement
- ✓ Value and respect people and make decisions based on merit
- ✓ Base recognition and reward on performance
- ✓ Always be responsible, trustworthy and law-abiding

Corporate Organogram



BRAC Bank Limited has two sets of reporting lines, one that reports specifically to the MD and another that reports to the DMD. MD is the representative of the Board of top management as well as in charge for all the business choices taken by the bank.

The organogram of BRAC Bank specifies that the most extreme definitive position starts from the Managing Director (MD) & CEO of the company as like other organization. Then comes all the departmental heads, notably Head of SME, Retail Banking, Corporate Banking, and Head of treasury & FI and so on. There are a various sub-divisions under the shadow of the departmental heads, which operate under the guidance of respective departments.

Introduction

Rational

Finance is one of the broad and interesting field of study. Financial operation helps every organization to make sound financial decision and managing the money appropriately. Finance is also called the science of money management. As a finance background student, my desire was to work in the financial sector where I can exercise my knowledge and learn new financial practices.

Financial sector has a significant role in economic growth of a country. In Bangladesh the banking sector dominates the financial sector and also a large portion of GDP contributes by banking sector of our country. The banking sector of Bangladesh is comprised to commercial banks, Islamic banks, microfinance banks, DFIs, foreign banks and specialized banks. Currently there are fifty seven banks in Bangladesh; among them there are 8 State Owned Banks (6 Scheduled and 2 Specialized), 9 Foreign Banks, 40 Private Commercial Banks (8 Shariah Based Islamic Banks, 3 NRB Banks and 29 Conventional banks). Central bank of Bangladesh is the principal regulator and supervisor of jurisdiction who monitor all the banks being operated in Bangladesh. Since birth, Bangladesh has witnessed a progressive growth in banking industry and the role of this sector in economic development is very significant.

The private commercial banks are the principal parts of banking industry in terms of profitability and market share. Among the 40 private commercial banks, BRAC Bank has a dignified purpose of serving the neglected small and medium enterprise of Bangladesh. BRAC Bank currently the leading SME finance provider in our country and 4th position worldwide in terms of lending volume. With the aim of transforming the dreams into reality, BRAC Bank started its journey in 2001, dedicated to the 160 million dreamers of Bangladesh.

After the birth of Bangladesh there were only four nationalized banks and due to absence of private bank there were no competition in the banking industry of Bangladesh. After the liberalization policy private and foreign banks were entering into Bangladesh. Then the competition among the banks raised in the industry. While the profit of one bank increased, the profit of other banks declined. This situation throw a question to everyone's mind that what are the determinants that are affecting the bank profitability? Through this report anyone can have a clear idea of the major factors that are effecting the profitability of a BRAC Bank Limited.

Background

Internship provides a learning experience opportunity and the real scenario of the corporate world for the students by exploring an organization. While preparing this report on “**The Determinants of Profitability of BRAC Bank Limited**”, my academic learning, my supervisors directions and the immense assistance of my faculty supervisors supported me a lot to complete this report in an organized and effective way.

Objective

The primary target of preparing this report is to effectively complete my Bachelor’s degree at BRAC University. Through this report I have tried to discover the internal factors that are affecting the profitability of BRAC Bank Limited. There are internal and external factors that effects BRAC bank’s profitability. On this report I have worked on the internal factors which plays very significant role in profitability.

Besides my primary objective of the degree completion, I have other purposes to work on this topic. These includes-

- ✓ To discover the major factors that effects the profitability.
- ✓ To explore significance of each determinants.
- ✓ To get a broad idea of the determinants that effect the profitability of BRAC Bank Ltd.
- ✓ To find out the improvement area and also the weaknesses.
- ✓ To identify the importance of internal factors in profitability.

Internship Responsibility

I have joined BRAC Bank as an intern in the product department under retail banking division on 12 September 2018. I was selected after an interview with the respective managers from Human Resource department.

My Responsibility

During my three months' internship program I was assigned with the following tasks:

- i) Preparing health vouchers for free annual master health checkup at Apollo & United Hospital for Premium Banking customers. All the voucher requests comes via email from the relationship managers (RM) from different branches as per customer preference. After checking their eligibility I used to prepare the voucher for these customers.
- ii) Arranging complementary airport “Pick-up & Drop” and “Meet & Greet” Service for Premium Banking customers. Premium customer’s contacts with their RM whenever they need to avail these services and the RM sends us an email with all the necessary details of the customer’s Arrival and Departure.
- iii) Preparing Monthly birthday list of Premium banking customers; All the Premium Banking customers living in Dhaka and Chittagong receives a complimentary birthday cake and flower bouquet from the bank. Therefore, to arrange that I had to prepare a monthly list of birthdays which were sent to the branch relationship managers for confirmation that those customers will be available on their birthdays and they also let us know whether they want the cake to be delivered to their address or to their respective branches. All these details are then included to the list and forwarded to the vendor for delivery
- iv) Upgrading general customers account into Premium Banking as per request from branch relationship managers. When a customer is maintaining the required threshold

for Premium Banking the customer's respective relationship manager sends us request to upgrade the customer's account. Based on that I had to prepare an analysis of the customer's account balance. If the customer is maintaining a 3 months' average balance of BDT 40 lac (Current + Savings) or total balance of BDT 75 lac then the upgrade request is approved.

- v) Receive and check through monthly bills from different service providers for the complementary services availed by the Premium customers.
- vi) Informing the customers various facilities which they might look for, for example Apollo Health Card Information, where a customer can get discounts for checkup or visiting doctors.
- vii) Maintaining the campaign information and informing the respective senior managers whether the customers is allowed for the campaign or not.

I have enjoyed all these works because of their inspiration and support. Most interestingly I got appreciation from every little task I have done on my desk. Every day was a learning experience for me.

Literature Review

The determinants of banks profitability are generally classified into internal and external factors. This report is based on the internal factors that effects the bank profitability. Internal factors are bank specific factors. Some studies focused country specific factors and few of them considered different countries research for identifying the determinants of banks profitability. These studies mention return on asset (ROE), return on asset (ROA) as dependent variable considering the internal and external factors. Samad (2008) used ROA to measures banks profitability. Flamini et al (2009) said ROA can give the best results as ROE does ignore financial leverage.

Asset Structure

Previously there are few studies that generally discovers a positive the loans and banks profitability. Bank issue more loans to generate more interest rate and high profit (e.g., Abreu and Mendes, 2002). The higher loan to total asset ratio specifies that bank is issuing more loans and generating more profit at the same time the lower loan to asset ratio says that bank is not managing its asset to generate income. Though the higher loan to total asset ratio cause liquidity risk but the performance of this ratio relates with the bank's profitability. Naceur (2003) finds that bank loans have a positive impact on bank profitability. Considering the literature, I am expecting a positive relationship.

Asset Quality

Previous studies depicts that asset quality directly affects bank profitability. Banks are highly vulnerable to credit risk. Issuing high-risk loans can lead to an increase in doubtful assets on the balance sheet, the return on which cannot be guaranteed (Bourke, 1989). Meanwhile, more doubtful assets need more provisions for loan and lease losses. Therefore, high-risk loans mean high interest rates. The returns from the well managed asset can only cover the high risks, in that case profitability may increase.

Capitalization

A previous study finds that the capital strength of an organization relates with the profitability. The capital ratio which is explained by total equity divided by total asset express the capital adequacy of the organization. Hasan and Bashir (2004) have found a positive relationship between total equity to total asset ratio and the profitability. Bourke (1989) said that TE/TA is expected to have a positive relation with performance because well capitalized banks are less risky and more profitable. Some studies also suggest that Capital adequacy ratio effects the profitability. Hutchinson and Cox (2006) investigated the relationship between bank capital and earnings among USA banks.

Research Methodology

This study is based on the internal factors which basically refers the bank specific factors that effects the bank profitability. Data of all bank specific variables like profits, loan, asset, shareholders equity are obtained from the website of BRAC bank's annual report and the income statement for the year of 2011 to 2017. All the required ratios have estimated by me. This study is based on the secondary data.

Definition of Variables

There are two types of variable taken for this study, dependent variable and a set of independent variable. They are as follows:

Dependent Variable

Banks profitability are generally measured by the estimating the return of asset (ROA) and return on equity (ROE). This papers uses return on asset (ROA) instead of return on equity (ROE). According to Flamini et al (2009), ROA is a better proxy of profit because ROE does ignore the financial leverage. Samad (2008) used ROA to find out the determinants of profitability.

Independent Variable

The variable which have a significant role in changing the return of equity are considered as independent variable in this study such as asset structure, asset quality and cost capitalization. These are the most important bank specific factors that effects the bank profitability.

So The Y variable (independent) is the Return on equity (ROA) and bank specific factors used as X variable (dependent). As general statistic standard, the significance of the regression analysis level has been considered up to 0.05.

Research

Hypothesis Development

Following the past studies that have used bank specific factors to identify the major determinants of profitability, this study tested eight hypothesis. All these hypothesis examines in this study to discover the effects of the independent variables over dependent variable. Based on the purpose, the present study seeks to test the following hypothesis:

1	H0 H1	There is no significant effect of loan to total asset ratio on banks profitability. There is a significant effect of loan to total asset ratio on banks profitability.
2	H0 H1	There is no significant effect of NPL ratio on banks profitability. There is a significant effect of NPL ratio on banks profitability.
3	H0 H1	There is no significant effect of equity to total asset ratio on banks profitability. There is a significant effect of equity to total asset ratio on banks profitability.
4	H0 H1	There is no significant effect of CAR on banks profitability. There is a significant effect of CAR on banks profitability.

Therefore, this study focuses on internal or bank specific factors. Future research will carried out with more internal as well as external forces on banks profitability.

Data

As this study focuses only BRAC banks internal forces, all the data has been collected from the available sources like annual report and journal and previous research paper.

	Y Variable (Dependent Variable)	X Variable (Independent Variable)			
Year	Profitability	Asset Structure	Asset Quality	Capitalization	
	ROA	LTA	NPL/LOAN	ETA	CAR
2012	0.35%	60%	6.8%	6%	11.44%
2013	0.78%	65%	6.5%	7%	11.33%
2014	1.09%	60%	5.7%	9%	14.72%
2015	1.13%	66%	6.0%	8%	12.23%
2016	1.89%	70%	3.4%	9%	12.26%
2017	1.95%	70%	3.6%	9%	12.72%

Here, the Return on asset (ROA) Capital Adequacy Ratio (CAR) information is directly taken from the annual report. Loan to total asset, Equity to total asset and Non- performing loan to total loan ratio is calculated by the author, the individual components information is collected from the annual report as well. I use the log of total asset as the value of total asset is too large. This table shows the different variables performance from year 2012-2017. All these information is used for correlation and regression analysis.

Analysis

To analyze the data I have done regression and correlation analysis. Regression analysis discovers the effects of independent variables over dependent variable and Correlation analysis helps to find out the strength between dependent and independent variable.

Regression Analysis

Under regression analysis there are some methods and elements that helps to measure the overall regression analysis.

R-Square

R-square explains that how close the data taken for this analysis are to the fitted regression line. We also call this as the coefficient of determination for regression.

<i>Regression Statistics</i>	
Multiple R	0.999979252
R Square	0.999958504
Adjusted R Square	0.999792521
Standard Error	9.00572E-05
Observations	6

Here the r-square for BRAC Bank is almost 99% which means that the variability of the dataset is 99% near around its mean. This value indicated that there are strong relationship between the dependent and independent variables.

For multiple regression adjusted R-square is used globally to ignore few errors for example if any more predictor added in the model it will increase always which specifies the errors .The adjusted R-square is unbiased and provides more close estimation of the population.

Model Overview

To identify the effectiveness of the regression model previous studies used ANOVA model. Through ANOVA model we can find out whether the regression model is effective or not. Here the significance level is 0.05 or 5% and any model having significance F value less than 0.05 is a effective model.

ANOVA					
	df	SS	MS	F	Significance F
Regression	4	0.00019544	4.88601E-05	6024.44438	0.009662461
Residual	1	8.1103E-09	8.1103E-09		
Total	5	0.000195448			

Here, the Significance F value is less than 0.05 which specifies the regression model is fit for the research.

Decision:

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-0.0335	0.0040	-8.3756	0.0757	-0.0842	0.0173	-0.0842	0.0173
LTA	0.0582	0.0044	13.2444	0.0480	0.0024	0.1140	0.0024	0.1140
ETA	0.0764	0.0145	5.2737	0.1193	-0.1076	0.2604	-0.1076	0.2604
NPL Ratio	-0.1938	0.0075	-25.9693	0.0245	-0.2887	-0.0990	-0.2887	-0.0990
CAR	0.0962	0.0152	6.3141	0.1000	-0.0974	0.2897	-0.0974	0.2897

P value of BRAC Banks

Here the p value for loan to total asset and the NPL ratio is less than 0.05 which suggests rejecting the null. Here the outcome of the result says the asset structure (loan to total asset) and asset quality (NPL Ratio) has a significant effect on profitability. While Equity to total asset and Capital adequacy ratio has no significant effect on the profitability.

Hypothesis Assessment Summary

The hypothesis summary as follows:

Hypothesis	ROA (Dependent Variable)	
	Null Hypothesis	Alternate Hypothesis
There is a significant effect of loan to total asset ratio on banks profitability.	Accepted	-
There is a significant effect of equity to total asset on banks profitability.	-	Accepted
There is a significant effect of NPL ratio on profitability.	Accepted	-
There is a significant effect of capital adequacy ratio on banks profitability.	-	Accepted

Correlation

The correlation analysis indicates that on Banks Profitability there is a positive relation of Loan to total asset, equity to total asset and also the capital adequacy ratio and there is a negative relation with the NPL ratio. Non-performing loan is a risk for the organization so if there is a negative relation with the profitability.

	<i>ROA</i>	<i>LTA</i>	<i>ETA</i>	<i>NPL/LOAN</i>	<i>CAR</i>
ROA	1				
LTA	0.83828	1			
ETA	0.85831	0.52687	1		
NPL/LOAN	-0.97096	-0.8061	-0.75436	1	
CAR	0.30284	-0.23881	0.66838	-0.23879936	1

Correlation between dependent and independent variable

The asset structure (LTA), capital strength (ETA & CAR) is positively correlated with the profitability and NPL ratio is negatively correlated with the profitability. The less the NPL ratio the higher the profitability.

Limitation of the study

- **Time constraint:** Time constraint is one of the major limitation which hindered me to make a concrete study and to make comprehensive report. The internship period duration was about 12 weeks which is not enough to explore the performance of each determinants that effect the profitability.
- **Determinants Focus:** As I have been in the Retail Banking Division of BRAC bank, so I was able to manage some specific determinants to work for this study. Thus I mostly focused on the determinants but I could not take all the determinants for this study for the limitation of information.
- This report is not flawless, lack of my practical knowledge and inadequacy may be available in this study.
- To measure bank profitability there are others factor that also influences, due to the limitation of time, confidential data this paper only focuses on specific factors.

Findings

BRAC Bank is one of the prestigious private commercial banks in our country, continuously gives its massive exertion to provide the fastest services and solutions all over the country. BRAC Banks performance is very progressive and they are on the way of living their dream.

Despite the fact that there are just couple of concentrates over the developing nations banking system, discoveries of this investigation is particularly like previous studies. Lending is the most beneficial venture for commercial banks, non-performing loan has significant effect on the progress of the commercial banks. In this study, I have tried to demonstrate the impact of NPL on banks profitability. Banks conduct business by gathering depositor's money and if banks fails to repay their asset whenever they need it, can create a vulnerable situation. In our country we have faced similar situation and for that people are losing their trust and confidence from the banking sector which may lead the negative profitability of the bank. Though the capital performance is progressive but sometimes excessive capital reduces the net profit after tax which badly effects the profitability. Considering the recent situation of BANGLADESH, banking sectors capitalization is not a good sign for the industry and the NPL ratio is showing that we are passing a very challenging times but the good news is our central bank has already came up with few rules and regulations which must be followed and due to this the banking sector is running progressively.

Recommendation

This study signifies that the effect of different variables on profitability. As per my small tenure of preparing this research, I would like to mention that, there is a significant effect of asset structure and asset quality on profitability of BRAC Bank on the other hand this paper and analysis depicts that the capitalization has no significant effect on measuring the profitability.

Loan or investment is the lifeblood for every bank. Considering the present situation of Bangladesh, this lifeblood is polluted frequently by a germ named bad loans or we can say it non-performing loan. Choosing customers wisely can improve this situation. Most of the cases banks fail to identify the customers and select the customers based on false information. BRAC Bank should select customers more wisely and they should not approve loans without proper credit analysis of customer. It's an ideal opportunity to work with non-performing loan as the asset that are given to the borrowers as advances must be protected and recovered on time.

In terms of capitalization, higher capital sometimes very costly for the bank because it may reduces the net profit after tax. BRAC Bank is progressing continuously but it should be taken into consideration that higher capital can affect the bank's profitability negatively because it decreases the net profit significantly.

Conclusion

Banking sector plays a vital role in generating the economy. At present, Banking sector of our country is not only depends on traditional method but also modern and digital method of banking. Banking sector has been considered as a prospective and progressive financial sector and it is contributing in our economy. However, recently this sector of our country is badly affected by bad loans so the banks are facing a lots of challenges to maintain the liquidity to provide loans to their customers. In a nutshell, the progress of the economy is at risk. One of the problem is banks incompetence in evaluating credit risk of its customers. This particular problem is getting worse as day goes by.

Bangladesh bank has already established rules and regulation to support the banks dealing with these issues. Even though all the banks having Bangladesh banks guidelines, there are many banks still fail to gain good credit risk management and run profitably. Therefore it is not only the directions given by the Bangladesh bank that all the banks need but also recommend every financial institution to develop individual lending policies that which should ensure maximum effectiveness of credit risk management. In this report, it has become evident that non-performing loans directly affects the profitability.

This paper concludes that several bank-specific factors possess significant influences on the profitability of BRAC Bank. Variables like loan to total asset and non-performing loans have significant impact on the profitability. Although the impact of variables is mixed in the different measures of profitability, the results specifies that all the factors are relevant.

Reference

- ✓ Annual Report 2012-2017
- ✓ Flamini, Valentina & McDonald, Calvin & Schumacher, Liliana. (2009). The Determinants of Commercial Bank Profitability in Sub-Saharan Africa. IMF Working Papers. 09. 10.5089/9781451871623.001.
- ✓ Abreu, Margarida & Mendes, Victor. (2001). COMMERCIAL BANK INTEREST MARGINS AND PROFITABILITY: EVIDENCE FOR SOME EU COUNTRIES.
- ✓ Ben Naceur, Sami. (2003). The determinants of the Tunisian banking industry profitability: Panel evidence.
- ✓ Bourke, Philip. (1989). Concentration and Other Determinants of Bank Profitability in Europe, North America and Australia. Journal of Banking & Finance. 13. 65-79. 10.1016/0378-4266(89)90020-4.
- ✓ Chowdhury, Mohammad Ashraful & Eskandar Shah Mohd Rasid, Mohamed. (2015). The determinants of the profitability of Islamic banks: A cross-sectional study from Asia and Africa. International Journal of Business and Globalisation. 15. 375-388. 10.1504/IJBG.2015.071913.
- ✓ Samad, Abdus. (2015). Determinants Bank Profitability: Empirical Evidence from Bangladesh Commercial Banks. International Journal of Financial Research. 6. 10.5430/ijfr.v6n3p173.
- ✓ Louzis, D., Vouldis, A. and Metaxas, V. (2012). Macroeconomic and bank-specific determinants of non-performing loans in Greece: A comparative study of mortgage, business and consumer loan portfolios. Journal of Banking & Finance, 36(4), pp.1012-1027.
- ✓ Liu, H. and Wilson, J. O. S. (2010), "The profitability of banks in Japan," Applied Financial Economics, 20, pp. 1851-1866.
- ✓ Md Saimum Hossain and Faruque Ahamed (2015), "Determinants of bank profitability: A study on the banking sector of Bangladesh".
- ✓ Ruo Chen Wang, Xuan Wang (2015), "What determines the profitability of banks? Evidence from US".

- ✓ Shiang Liu (2013), “Determinants of the profitability of the U.S. banking industry during the financial crisis”.
- ✓ Goddard J., P. Molyneux and J. Wilson, (2004), “The profitability of European banks: A crossectional and dynamic panel analysis”.

Appendix

Terms and Definition-

BBL-BRAC Bank Limited

NPL- Non-performing loan

LTA- Loan to total asset

ETA- Equity to total

CAR- Capital Adequacy Ratio

ROA- Return on asset

DFI- Development financial institution

M- Million