



INTERNSHIP REPORT  
ON  
“FACTORS EFFECTING THE  
NON-PERFORMING LOANS OF  
BANK ASIA LIMITED”



Inspiring Excellence

Internship Report

On

**“Factors Effecting The Non-Performing Loans of  
Bank Asia Limited”**

Prepared for

Ms. Asphia Habib

Lecturer

BRAC University

Submitted By:

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BBA

Date: 9<sup>th</sup> September, 2018

## Letter of Transmittal

Date - September 9<sup>th</sup>, 2018

Ms. Asphia Habib

Lecturer BRAC Business School

BRAC University 66, Mohakhali, Dhaka-1212

Subject: Submission of the report on “Factors effecting Non- Performing Loans of Bank Asia Limited”.

Dear Madam,

I am pleased to submit hereby the Internship report of “**Factors Effecting the Non-Performing Loans of Bank Asia Limited**” for your kind evaluation. To prepare this report, I have given my best effort that would enhance the project report.

This report attempts to describe my observations, learning during the internship tenure in Credit Department of Bank Asia Limited. I made sincere efforts to study related materials, documents, annual report and operational systems of Bank Asia Limited and examined relevant records for preparation of the Internship paper as comprehensive and informative as possible within the time allocated for me.

I would be glad if you accept the term paper and oblige thereby.

Sincerely yours,

---

**Rishad Jude Adhikary**

ID No.: 14304080

BRAC Business School

BBA

BRAC University

## Letter of Endorsement

This is to certify that the Internship Report on “**Factors Effecting the Non-Performing Loans of Bank Asia Limited**” submitted for the award of the degree of Bachelor of Business Administration (BBA) from BRAC University, is a record research carried out by Rishad Jude Adhikary under my supervision. No part of the Internship Report has been submitted for any degree, diploma, title or recognition before.

She has permitted me to submit the Internship Report. I appreciate her excellence of work and well-wishing for the journey to the next academic stage.

.....

Ms. Asphia Habib

Lecturer

BRAC Business School

## Acknowledgment

The internship opportunity I had with Bank Asia Ltd. was a great chance for learning and professional development. Therefore, I consider myself as a very lucky individual as I was provided with an opportunity to be a part of it. I am also grateful for having a chance to meet so many wonderful people and professionals who led me through this internship period.

Bearing in mind previous I am using this opportunity to express my deepest gratitude and special thanks to of BRAC University for taking part in useful decision & giving necessary advices and guidance and arranged all facilities to make life easier for me. I choose this moment to acknowledge her contribution gratefully.

I express my deepest thanks to Mr. S.M. Salahuddin, Head of Branch, of Bank Asia Ltd. who in spite of being extraordinarily busy with his duties, took time out to hear, guide and keep me on the correct path and allowing me to carry out my project at their esteemed organization and extending during the internship tenure.

I perceive as this opportunity as a big milestone in my career development. I will strive to use gained skills and knowledge in the best possible way, and I will continue to work on their improvement, in order to attain desired career objectives. Hope to continue cooperation with all of you in the future.

Sincerely,

**Rishad Jude Adhikary**

## Executive Summary

Financial institutions are investment intermediaries linking the savers and users of fund. These intermediaries interpose between the ultimate borrowers and lenders permitting them efficient transfer of funds. Individuals having surplus funds can lend them for reasonable return to entrepreneurs who need funds to take the advantage of economically and financially viable investment opportunities.

Now a day it is completely impossible to think a country without a bank, because banks play a diversified role in the development of an economy. The most important task of bank is building of capital which is the key factor of the development of an economy. Banking sector helps to flourish the industrial sector by supplying the capital of the industries and other services like intermediaries role in case of foreign business.

Bank Asia Limited is a scheduled commercial Bank under private sector in Bangladesh established under the Banking Company Act, 1991 and incorporated as a Public Limited Company under the Company Act, 1994 on September 28, 1999. BAL is one of the top performing third generation banks in Bangladesh.

This internship report is prepared by me Rishad Jude Adhikary a student of BBA at Brac University, on Factors Effecting the Non-Performing Loans of Bank Asia Limited. It a qualitative report that focus on the overall practice compliance in the organization.

In my three months internship period I worked in this department and have come to know about the minute details of how this department works and what are the supporting bodies to it. My detail experience has been shared in this report including the different factors such as, GDP, Interest Rate and Inflation, I have taken to show if there is an impact on the Non-Performing loans.

Finally, I have provided suitable findings regarding the laggings and scopes of improvements of this department using my knowledge and overall views of the other members of Credit

Department. I have used the intranet of Bank Asia Limited in this matter along with their financial reports of 10 years, World Development Indicators & Databank.

There might be considerable omissions in the report due to the limitations of information and lack of time. However, I must assure that I have given my best in preparing this report and live it for further studies.

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# CHAPTER 1: PROFILE OF BANK ASIA

## 1.1 Historical Background of Bank Asia Limited

Bank Asia Limited started its expedition on November 27, 1999 with an intend to be fully customer focused through rendering technology driven innovative products and services by a group of successful entrepreneurs of the country with the fundamental aim of bringing high excellence services in the banking sector and actively participating in the development and expansion of the national economy.

Bank Asia Limited is a scheduled commercial Bank under private sector in Bangladesh established under the Banking Company Act, 1991 and incorporated as a Public Limited Company under the Company Act, 1994 on September 28, 1999. The Bank achieves Certificate of Incorporation and Certificate of Commencement of Business on September 28, 1999 and banking license on October 06, 1999.

In February 2001, Bank Asia Limited took over the Bangladesh operation of The Bank of Nova Scotia. It was the first acquisition of a foreign bank by a local bank in the banking history of Bangladesh. Later, Bank Asia took over the Bangladesh operation of Muslim Commercial Bank of Pakistan in December 2001.

These audacious moves were possible for some visionary decision makers and also devoted team of proficient's who are constantly putting their greatest efforts to establish the bank as one of the leading concern in the industry arena.

Subsequently the Bank was listed with Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) on January 06, 2004. Since inception Bank Asia is working competently and achieving a strong prominent situation in banking sector.

After 17 years of operation, today Bank Asia proudly stands among the top rated banks of the country with a wide network of business outlets comprising of conventional banking branches, Islamic windows, off –shore banking unit, brokerage branches, agricultural branches, and SME centers. During this short span of time the Bank had been successful to position itself as a progressive and dynamic financial institution in the realm. The Bank had been extensively highly praised by the business community, from small entrepreneur to large traders and

industrial conglomerates, including the top rated business borrowers for forward-looking business outlook and innovative financing solutions. Thus within this very diminutive time frame it has been able to generate an image for itself and has earned momentous reputation in the country's banking sector.

Besides, most of the city areas under Dhaka and Dhaka are covered by ATMs with 24 hours banking facilities for the customers. As of end 2016, Bank Asia had 1,600 dedicated employees for serving its clients across the country offering a full suite of financial products and services. With its assets of more than Tk. 163,778 million, Bank Asia commands significant market share in both deposits and advances with Tk. 113,489 million and Tk. 104,911 million respectively. In the year 2016 the Bank also recorded an impressive foreign trade business as well as inward remittance than previous two financial years.

The bank is combining the proficiency of other financial products to cater its customer under a sole covering. The Bank considers the society as one of its contributor of business advancement and tries to compensate it by playing key role in CSR agenda. The Bank specifically highlights on the automation of the banking activities throughout the use of online banking, M-Banking, Telebanking, and Internet Banking, 24/7 ATM services, Card services etc. Bank Asia is also trying to adopt other online mechanisms to minimize the use of papers resulting into going green.

Bank Asia has so far been highly victorious in keeping its customers satisfied with its elevated class service, while continuing its extension to reach further people around the country. Bank Asia performs all types of commercial banking activities. The Bank is involved in most of the areas of commercial banking operations. The core business of the Bank comprises of trade finance, term finance, working capital finance and corporate finance. Bank Asia has acted as the lead arranger in raising term loan for a number of projects under syndicated finance and also participated in some cases under such financing arrangement.

The Bank is also providing personal credit, service related to local and foreign remittances and several other products. The "Personal Credit" scheme of the Bank, which is designed to help the fixed income group in raising standard of living is competitively priced and has been widely appreciated by the customers. Bank Asia's program under "Poverty Alleviation Scheme"

delivered through rural branches in the form of micro credit is playing an important role towards socio economic development of the poor people in the rural areas.

By this time Bank Asia has consolidated its strength manifold through extending its business rapidly while ensuring sustainable growth. Bank Asia started its most cherished Islamic banking operation in 2008 for providing strict Shariah based products. It established its 1st subsidiary company named “Bank Asia Securities Limited” on March 16, 2011 and another subsidiary company “BA Exchange Company (UK) Limited” in United Kingdom in the same year. Now the Bank is rendering services through its 86 Branches, 5 Islamic Windows, 6 SME Service Centers, 1 Off-shore Banking Unit, and 2 Subsidiary companies.

Bank Asia Limited is one of the few banks permitted by the Bangladesh bank in the late 90s. These banks are known as the third generation banks and are fortunate to remain immune from the bad loan culture. However, Bank Asia Limited remained as one of the top performers among them.

Bank Asia Limited has been licensed by the Government of Bangladesh as a Scheduled Bank in the private sector in pursuance of the policy of liberalization of banking and financial services and facilities in Bangladesh. In view of the above, the Bank within a short period of its operation has achieved a remarkable success and met up capital adequacy requirement of Bangladesh bank. Credit Rating Agency of Bangladesh Limited (CRAB) awarded Bank Asia Limited “AA2” in the Long Term and ‘ST2’ rating in the Short Term based on the financial of 2016.

Bank Asia Limited was reward several times by the reputed organizations for disclosure of corporate governance and best published accounts and reports. The Annual Report 2012 was awarded Certificate of Merit by ICAB for Best Presented Annual Report in the Private Sector Banks including Cooperative Banks and SAARC anniversary award for Corporate Governance. More over Bank Asia Limited achieved commendation for first time Sustainability Report and special commendation for Most Progressive Reporter 2012 by National Center for Sustainability Reporting (NCSR) in Pejaten, Jakarta.

The management of Bank Asia is determined to uphold and upgrade the quality of these resources through continuous training and upgrading expertise to keep pace with market demands, new developments and practices of the competitors. Bank Asia entered the market at a

time when economic policy environment of the country is poised for higher level of business activities and growth. The prevailing macroeconomic management and the government's determination to carry on reforms in the banking sector provide a supporting and encouraging atmosphere.

## **1.2 Mission, Vision, Core Values and Corporate Objectives**

### **1.2.1 Vision**

Vision of Bank Asia Limited is to have a poverty free Bangladesh in course of a generation in the new millennium, reflecting the national dream. The bank's vision is to build a society where human dignity and human rights receive the highest consideration along with reduction of poverty.

### **1.2.2 Mission**

- To assist in bringing high quality service to the customers and to participate in the growth and expansion of the national economy
- To set high standards of integrity and bring total satisfaction to the clients, shareholders and employees
- To become the most sought after bank in the country, rendering technology driven innovative services by the dedicated team of professionals.

### **1.2.3 Core Values**

- Place customer interest and satisfaction as first priority and provide customized banking products and services.
- Value addition to the stakeholders through attaining excellence in banking
- Operation. Maintain high ethical standard and transparency in dealings.
- Be a compliant institution through adhering to all regulatory requirements.
- Contribute significantly for the betterment of the society.
- Ensure higher degree of motivation and dignified working environment for our human capital and respect optimal work life balance.
- Committed to protect the environment and go green.

### 1.3 Corporate Objectives

- Highly Personalized service
- Customer driven focus
- Total commitment to quality
- Outstanding product
- Contribute in the economy
- Commitment to its clients at each level

### 1.4 Corporate Information of Bank Asia Limited



<b>Name</b>	Bank Asia Limited
<b>Registered Office</b>	Rangs Tower
	68, PuranaPaltan, Dhaka-1000, Bangladesh
<b>Date of Incorporation</b>	September 28, 1999
<b>Authorized Capital</b>	Tk. 15000 million
<b>Paid up Capital</b>	Tk. 6936.32 million
<b>Credit Rating</b>	AA3 (LT), ST2 (ST)
<b>Number of Branches</b>	86
<b>Subsidiary Companies</b>	2
<b>Technology</b>	For online banking Bank Asia use STELAR and iStelar
<b>Telephone</b>	04470009098, 47110042,4 7110062,4 7110173, 47110147
<b>Fax</b>	+88 02 7164311
<b>E-mail</b>	<a href="mailto:bankasia@bankasia.com.bd">bankasia@bankasia.com.bd</a>
<b>Website</b>	<a href="http://www.bankasia-bd.com">www.bankasia-bd.com</a> , <a href="http://www.bankasia.net">www.bankasia.net</a>
<b>SWIFT Code</b>	BALBDDHCTS

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## 1.5 Products and Services offered by Bank Asia Ltd.

### Business Banking

<b>Overdraft</b>		<b>Time Loan</b>
<b>Secured Overdraft</b>		<b>Transport Loan</b>
<b>Secured OD (Earnest Money)</b>		<b>House Building Loan(Commercial)</b>
<b>Working capital finance</b>		<b>Term loan</b>
<b>Loan against Trust Receipt</b>		<b>Lease Finance</b>
<b>Loan against Cash Incentives</b>		<b>Letter of Guarantee</b>
<b>Bill discounting</b>		<b>Letter of Credit</b>
<b>Loan Syndication and Structured Finance</b>		<b>(Sight/Deferred/UPAS)</b>
<b>Packing Credit</b>		<b>Back to back Letter of Credit (Local &amp; Foreign)</b>
<b>Demand Loan</b>		<b>Agriculture Financing</b>
<b>Demand Loan (work order)</b>		<b>Staff Loan ( Car Loan, House Building Loan, Provident Fund Loan)</b>

## Small and Medium Enterprise (SME)

<b>Term Loan</b> Subidha -Unsecured Trading Sondhi -Secured Trading Sristi – Unsecured Manufacturing Shombridhi- Secured Manufacturing Shofol – Unsecured Service Sheba- Secured Service	<b>Over Draft</b> Somadhan – Secured <b>Special Products</b> Utshob- Seasonal Business Subarno- Women Entrepreneur
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## Consumer Finance

Auto Loan Consumer Durable Loan Unsecured Personal Loan	House Finance Loan for Professionals Senior Citizen Support
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## Credit Card

VISA Platinum Card (with Priority Pass) VISA Classic Local Card VISA Classic Dual Card VISA Butterfly Card VISA Gold Local Card VISA Gold Dual Card	Hajj Card Travel Card (prepaid card) Virtual Card Master Silver Card Master Gold Card SME Credit Card LankaBangla Card Cheque
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**Treasury**

<p><b>Money Market</b></p> <ul style="list-style-type: none"> <li>Overnight Lending and Borrowing</li> <li>Repo and Reverse Repo</li> <li>Swap</li> <li>Sale and Purchase of Treasury Bill &amp; Bond</li> <li>Placement of Fund</li> <li>Term Borrowing</li> <li>Investment</li> </ul>	<p><b>Foreign Exchange Market</b></p> <ul style="list-style-type: none"> <li>Spot</li> <li>Forward</li> <li>Currency Swap</li> </ul>
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**Deposit Products**

<ul style="list-style-type: none"> <li>Saving Account</li> <li>Current Account</li> <li>Short Notice Deposit</li> <li>Fixed Deposit</li> <li>Foreign Currency Account</li> <li>Deposit Pension Scheme</li> </ul>	<ul style="list-style-type: none"> <li>Monthly Benefit Scheme</li> <li>Double Benefit Scheme</li> <li>Triple Benefit Scheme</li> <li>Bank Asia Sanchoy Plus</li> <li>Shonchoy E KotiPoti (SKP)</li> </ul>
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**Islami Banking**

<p><b>Deposit Products</b></p> <ul style="list-style-type: none"> <li>Al-Wadiah Current Account (AWCA)</li> <li>Mudaraba Savings Account (MSA)</li> <li>Mudaraba Special Notice Deposit Account (MSNDA)</li> <li>Mudaraba Term Deposit Account</li> </ul>	<p><b>Investment Products</b></p> <ul style="list-style-type: none"> <li>BaiMurabahaMuajjal</li> <li>Hire Purchase ShirkatulMelk (HPSM)</li> <li>Musharaka</li> <li>Quard against Accepted Bills</li> </ul>
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<p>(MTDA) of different tenure</p> <p>Mudaraba Hajj Savings Scheme (MHSS)</p> <p>Mudaraba Deposit Pension Scheme (MDPS)</p> <p>Mudaraba Monthly Profit Paying Deposit Scheme (MMPPDS)</p> <p>Smart Junior Saver (SJS)</p> <p>Cash Waqf</p>	
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**Service Products**

<p>ATM Services</p> <p>Remittance Service</p> <p>Locker Service</p> <p>Online Banking</p> <p>Internet Banking</p> <p>Phone Banking</p> <p>Mobile Banking</p> <p>SWIFT</p> <p>Centralized Trade Services</p>	<p>Student File</p> <p>Travelers' Cheque</p> <p>E-Commerce</p> <p>E-Procurement</p> <p>Debit Card</p> <p>Call Centre</p> <p>Remote Banking (EBEK)</p> <p>Agent Banking</p>
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<p><b>Off-shore Banking Unit (OBU) Products</b></p> <p>On-shore Import &amp; Export Bill</p> <p>Discounting</p> <p>Working Capital Finance</p> <p>Trade Finance</p> <p>Loans &amp; Advances to wholly foreign</p>	<p><b>Capital Market Operation</b></p> <p>Brokerage Operation</p> <p>Margin Loan</p>
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owned entities Term loan to local entities subject to BOI approval Nostro account services to other local Banks	
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## CHAPTER 2: INTRODUCTION

### 2.1 Background

The position of banks to the modern day global economic system is remarkable for the reason that banks are among the chief and one of the most important players of an economy within the globe. Financial Institutes (FIs) and banks specifically are important to any economy due to their potential to mobilize savings and have good cash flows within the financial system.

Surely, without banks the worldwide economy would go to an unexpected fall for the most part as banks are the rule money related delegates amongst contributors and loan bosses making business exchanges possible. Fellow (2011) affirms that the saving money industry still structures the important reason for monetary intermediation in many nations in the globe. In any case, for banks to offer the central administrations they should have the assets with which to do as such; and the arrangement of advances offers the most essential means by which banks acquire their incomes (Fellow, 2011). Absolutely, the guideline reason about why banks give monetary intermediation is to empower them to boost their benefits and to offer some incentive to the investors.

Clearly, loaning is of central significance to the keeping money industry as the advances that the banks give out frame the essential wellsprings of their incomes. Truth be told, it has been resolved that advances give somewhere in the range of half and 75% of the incomes that banks procure (Karim, Chan and Hassan, 2010). Aside from the capacity of advances to deliver incomes, credits are likewise equipped for drawing in the primary part of working salary to the bank along these lines keeping them operational (Karim, et al., 2010). Subsequently, business banks see loaning as an essential capacity for subsidize use.

## 2.2 Objectives of the Study

**The major objectives of the study are as follows**

1. Analyze the current situation of Non- performing loans (NPL) in our banking sector and look at the trends of NPL.
2. To figure out the whether Gross Domestic Product (GDP), Interest Rates and Inflation has a significant effect on the Non-Performing Loans of Bank Asia limited.

## 2.3 Limitations of the Report

I worked hard to prepare an informative report. But in every step of our personal and professional life we face some problems or limitations. I also faced some difficulties while preparing the report.

There are some limitations that I have faced during preparing the report.

### **1 Short time period**

The first obstruct is time itself. Due to the time limit, the scope and dimension of the study has been curtailed. For an analytical purpose adequate time is required. But I got a short time period to prepare the report. For time shortage it was difficult for me to collect elaborate information.

### **2 Lack of Experience**

I did such kind of research activity for the first time. That's why inexperience creates barrier to follow the systematic and logical research methodology. Due to lack of experience, there is a chance of having some mistakes in the report though best effort has been applied to avoid any kind of mistake.

### **3 Data Insufficiency**

The most obvious limitation is the lack of information. It was not possible to gather all information. Information collected for the report is both primary and secondary in nature. Due to some legal commitment and business secrecy banks resistant to provided data. For this reason, the study limits only on the available published data and certain degree formal and informal interview. Though all of the information used in this report is genuine, I should make this report more informative and practical. It is actually very tough to learn and cover all the components of the analysis within a specific time span. Although this study tried to cover all the relevant concerns, it has some shortcomings.

## CHAPTER 3: LITERATURE REVIEW

The purpose of this chapter is to provide a general overview on the factors that affect the non-performing loans in commercial banks. The information described here is taken from existing literature which is relevant to this research topic. The literature review mostly emphasizes on 3 factors that affect the non-performing loans, namely the Gross Domestic Product (GDP), Interest Rate, and the Inflation Rate.

### 3.1 Non-performing Loans

At the point when banks are acknowledging on-time credit installments, the loans are described as performing loans while the banks are at profit (Guy, 2011). According to the empirical evidence, providing loans is the basis of the banking industry the lease charged by the banks on the borrowed cash is the main source of incomes (Babouček and Jančar, 2005). The banks are continually eager to provide more credits to borrowers regardless of the fact this is a hazardous wander, since loans and advances are the most productive endeavors for commercial banks (Karim, et al., 2010). However, the majority of the times, the banks fail to acknowledge returns against the credits that they issue out due to defaults. Such credits that have not been paid over specific span of time are said to be non-performing and are hazardous to the bank as this can lead to a definitive fall of the bank, the banking industry and the entire economy (Beck, et al., 2006).

As stated by Fatemi and Fooladi (2006), non-performing loans are advances, which are unrecoverable within a specific span of time decided by the laws of the nation or as consented to by the bank and the borrower at the season of arrangement. In that capacity, the likelihood of acquiring income from such credits is indeterminate. Non-performing loan can also be defined as an interest payment, which is the same as 3 months or 90 days interest or more that has been capitalized, refinanced, or rolled over. The issue of non-performing loans has picked up a considerable measure of consideration in numerous nations around the globe particularly since the financial crises of 2007 – 2008, as it was thought to be the primary cause of failure of most banks amid the crisis (Karim, et al., 2010).

### **3.2 Gross Domestic Product (GDP)**

As stated by Beck, et al. (2013), the major factor that is affecting the NPL ratios is the real Gross Domestic Product. Based on a research conducted in Spanish banks, Bessis (2006) noted that the GDP growth, lenient terms of credit and high interest rates are the determining factors of non-performing loans. According to existing research, gross national product (GDP) goes down as the economy expands. As a result, the amount of non-performing loans increases since the borrowers are more likely to fail to return the loans (Babouček and Jančar, 2005).

An economic expansion is antagonistic to a flood in surge in financial misery as it grants increased income and revenues (Messai and Jouini, 2013). Subsequently, an expansion in genuine GDP development is acknowledged as business levels additionally flood the consequence of these is a decline in NPLs (Murumba, 2013). This is on the grounds that according to Messai and Jouini (2013), the development in real GDP enhances the borrowers' repayment ability leading to a reduction in the level of bad debts. Therefore, a negative growth in real GDP because of economic downturn obviously accelerates an increase in NPLs (Beck, et al., 2013). Nonetheless, the relationship between the real GDP and non-performing loans is as yet a subject of discussion, taking into concern that there are findings, which have discovered that the relation is insignificant or questionable (Onyia and Oleka, 2000). These findings are indeed alarming at the backdrop of the arguments in support of a relation between the real GDP and non-performing loans (Gorton and Winton, 2005). In contrast, the increase of the real GDP leads to an increase in the levels of NPLs held by banks (Babouček and Jančar, 2005).

### **3.3 Interest Rate**

Interest is a fee paid on borrowed assets. It is the cost paid for the use of borrowed cash or cash earned by deposited funds (Collins and Wanjau, 2011). As for banks, their primary profits originate interest rate. The interest rate increases as the length of time to make a settlement increases. When the interest rate is at its minimal, the demand by the borrowers is high. This shows negative relationship between interest rate and demand for loan. On the other hand, demand for financing is low when the interest rate is high. Individuals spare their cash when the



interest rate is high, and apply for financing when the rate is diminishing. By doing so, the amount that is required to return to the bank, as a result for making a loan, is slightly lower in contrast to the time when interest rate is high. At the point when the interest rate is low, net NPLs is likewise low. Similarly, when the interest rate is high, the amount of NPLs is also high. Furthermore, higher NPLs can be generated in the future in occurrence of high credit growth in the past. As indicated by all models, NPLs are exceptionally persistent which would propose that the reaction of credit misfortunes to the macroeconomic cycle could take time to appear, in spite of the fact that it would likewise infer that NPLs would then cumulate to high levels (Espinoza, et al., 2013). An increase in the interest rate debilitates the credit installment limit of the borrower, in this way, the non-performing loans and bad loans are positively correlated with the interest rates.

### **3.4 Inflation**

The higher the inflation rate objective, the lower the probability of hitting the zero bound. Under inflation targeting regime, the policy interest rate is generally a single instrument to signal policy stance towards various economic variables with an ultimate goal of price stability and sustainable economic growth. As of late, nonetheless, continued increases in the global prices of oil and other commodities, due to drastic expansion of rising economies specifically in China and India, exerted upward pressure on global inflation. The increase in inflation ultimately forces interest rates upwards. It means that inflation rate has an impact on the interest rate only and not on other factors. The level of output permanently falls as the inflation rate increases. An increase in inflation can lead to a higher output or lower output or no change in output.

A positive relation is seen between the inflation in the economy and non-performing loans, which can be justified by empirical evidence (Fofack, 2005). However, according to Nkusu (2011), this relationship can either be positive or negative. He further explains that inflation can affect loan payment capacity of borrowers either positively or negatively by reducing the real value of outstanding debt as higher inflation can enhance the loan payment capacity of borrower.

Furthermore, the increased inflation can deteriorate the payment capacity of the borrowers by decreasing the real income when the salaries are sticky, that too, highlighting the role of inflation in the presence of variable interest rate. Nkusu (2011) also describes that in such situation, inflation decreases the debt servicing capacity of the loan holders as lenders adjust the lending interest rates to alter their actual return. Therefore, according to literature relationship between inflation and non-performing loans can either be positive or negative depending on the economy of operations.

## **CHAPTER 4: METHODOLOGY**

### **3.1 Primary Data**

Primary data are collected by-

- Practical deskwork experience in the different desk of the department of the branch covered
- Relevant files study as provided by the concerned officers

### **3.2 Secondary Data**

- 10 Years Annual Report of Bank Asia Limited
- World Development Indicators Website
- Office Circulars of Bank Asia Limited
- CIECDATA Website
- Website of the Bank Asia Limited

### **3.3 Data Analysis Methods**

A quantitative method was used for analyzing the data. Moreover, I have shown a time series analysis using graphs. The raw data was taken from the annual reports & websites are presented nicely in a tabular form. The Multiple Regression Analysis was carried out to show the correlation between the factors and also to show if each individual factors had a significant impact. Microsoft Excel was used to analyze the data.

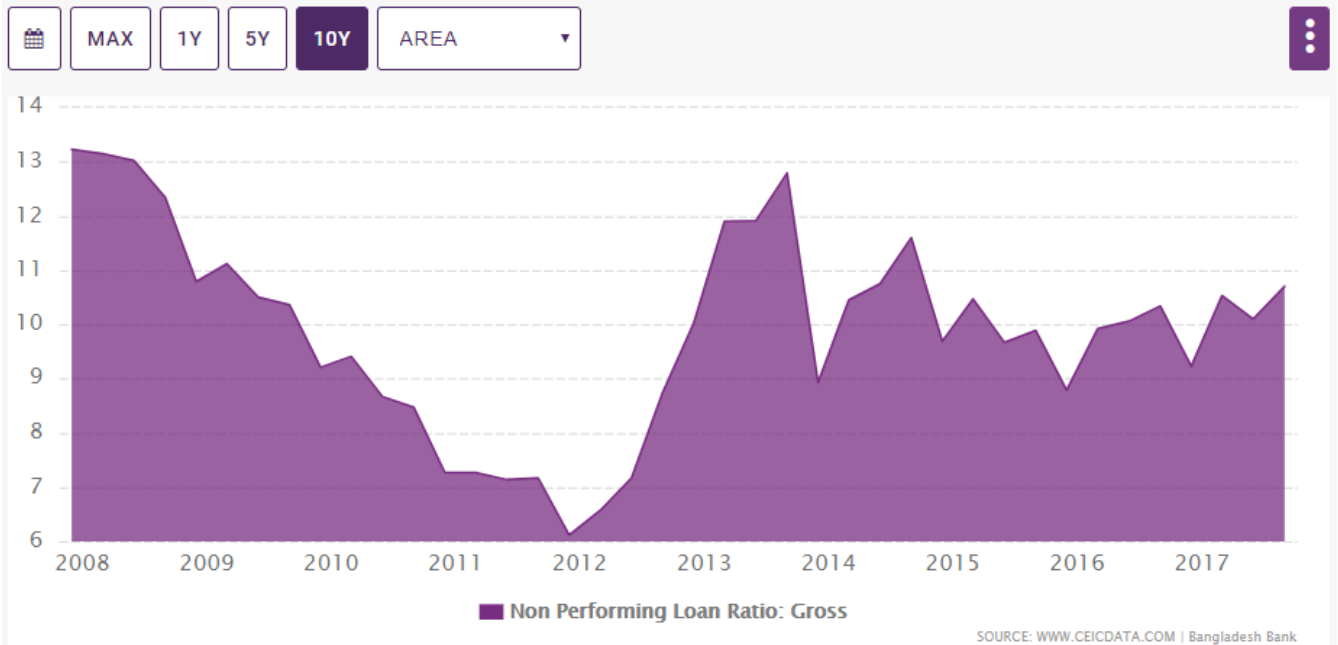
## CHAPTER 5: ANALYSIS AND RESULTS

### 5.1 Trend Analysis of Non- Performing Loans

**Figure 1: Shows the percentage of Non-Performing Loan Ratio**

Last	Previous	Min	Max	Unit	Frequency	Range
▲ 10.8 Mar 2018	▼ 9.3 Dec 2017	6.1 Dec 2011	28.0 Mar 2003	%	Quarterly	Mar 2003 - Mar 2018 Updated on 09 Jul 2018

View Bangladesh's Non Performing Loans Ratio from Mar 2003 to Mar 2018 in the chart:



The Non-Performing Loans Ratio of Bangladesh was 10.8% in March, 2018 compared to the ratio of 9.3% in the previous year December, 2017. In addition, we can see that the trend of non-performing loans has an increasing and decreasing trend over the 10 years' timeline. As the website updates the data every quarterly, the all-time highest record of the Non-Performing Loans Ratios was 28.0% in March, 2008 and the lowest record was 6.1% in December, 2011.

**Figure 2: Non-Performing Ratios of Other Countries**

Country/Region ^	Last	Previous	Min	Max	Unit	Frequency	Range
Albania	▼ 13.3 May 2018	▲ 13.5 Apr 2018	3.0 Aug 2007	25.0 Sep 2014	%	Monthly	Jul 2007 - May 2018 Updated on 2018-07-05
Argentina	▲ 2.0 May 2018	▲ 1.9 Apr 2018	1.2 Nov 2011	18.8 Nov 2003	%	Monthly	Dec 2002 - May 2018 Updated on 2018-07-12
Armenia	▲ 6.6 Apr 2018	▼ 5.4 Mar 2018	2.0 Dec 2005	10.8 Apr 2009	%	Monthly	Jan 2005 - Apr 2018 Updated on 2018-05-15
Australia	▲ 0.8 Mar 2018	▼ 0.8 Dec 2017	0.5 Dec 2007	2.2 Jun 2010	%	Quarterly	Jun 2004 - Mar 2018 Updated on 2018-06-21
Austria	▼ 3.4 Dec 2017	▼ 4.6 Jun 2017	3.4 Dec 2017	9.1 Jun 2012	%	Semiannua...	Dec 2009 - Dec 2017 Updated on 2018-06-20
Azerbaijan	▲ 5.9 Mar 2015	▼ 5.3 Dec 2014	3.6 Dec 2009	6.5 Sep 2012	%	Quarterly	Dec 2009 - Mar 2015 Updated on 2015-07-27
Bangladesh	▲ 10.8 Mar 2018	▼ 9.3 Dec 2017	6.1 Dec 2011	28.0 Mar 2003	%	Quarterly	Mar 2003 - Mar 2018 Updated on 2018-07-09
Belgium	▼ 1.0 Mar 2018	▼ 1.1 Dec 2017	1.0 Sep 2008	1.3 Mar 2014	%	Quarterly	Mar 2007 - Mar 2018 Updated on 2018-07-13
Bolivia	▼ 1.9 May 2018	▲ 1.9 Apr 2018	1.5 Dec 2015	1.9 Feb 2018	%	Monthly	Aug 2014 - May 2018 Updated on 2018-06-22
Bosnia and Herze- govina	▼ 9.7 Mar 2018	▼ 10.0 Dec 2017	3.0 Jun 2008	21.2 Dec 2000	%	Quarterly	Dec 2000 - Mar 2018 Updated on 2018-07-03
Botswana	▲ 5.3 Mar 2018	▲ 5.3 Dec 2017	0.5 Jun 2003	5.6 Mar 2011	%	Quarterly	Dec 2002 - Mar 2018 Updated on 2018-05-30
Brazil	▼ 3.1 Jun 2018	3.3 May 2018	2.7 Dec 2014	4.0 May 2017	%	Monthly	Mar 2011 - Jun 2018 Updated on 2018-07-27
Brunei	▲ 5.1 Mar 2018	▼ 4.2 Dec 2017	4.0 Jun 2015	13.8 Mar 2011	%	Quarterly	Mar 2011 - Mar 2018 Updated on 2018-06-14
Bulgaria	▼ 7.8 Mar 2018	▼ 8.1 Dec 2017	7.8 Mar 2018	16.2 Jun 2015	%	Quarterly	Mar 2015 - Mar 2018 Updated on 2018-04-30
Cambodia	▲ 2.5 Mar 2017	▼ 2.4 Dec 2016	2.0 Dec 2015	18.0 Mar 2000	%	Quarterly	Mar 1996 - Mar 2017 Updated on 2017-08-04
Chile	▲ 2.0 May 2018	▼ 1.9 Apr 2018	1.8 May 2016	3.3 Jun 2010	%	Monthly	Jan 2009 - May 2018 Updated on 2018-06-29
China	▲ 1.8 Mar 2018	1.7 Dec 2017	0.9 Sep 2011	12.4 Mar 2005	%	Quarterly	Mar 2005 - Mar 2018 Updated on 2018-05-11
Colombia	▲ 4.9 May 2018	▲ 4.9 Apr 2018	0.0 Dec 2001	14.0 Mar 2002	%	Monthly	Apr 1995 - May 2018 Updated on 2018-07-11
Croatia	▲ 11.4 Mar 2018	▼ 11.3 Dec 2017	4.8 Dec 2007	17.3 Jun 2015	%	Quarterly	Dec 2001 - Mar 2018 Updated on 2018-05-30
Cyprus	▼ 41.7 Mar 2018	▼ 44.1 Feb 2018	41.7 Mar 2018	49.0 May 2016	%	Monthly	Dec 2014 - Mar 2018 Updated on 2018-07-11
Czech Republic	▼ 3.5 May 2018	▼ 3.6 Apr 2018	2.6 Nov 2007	12.8 Jan 2002	%	Monthly	Jan 2002 - May 2018 Updated on 2018-06-29
Denmark	▼ 2.5 2017	▼ 3.2 2016	2.5 2017	6.0 2012	%	Yearly	2010 - 2017 Updated on 2018-06-29
Ecuador	▼ 3.7 Jun 2018	▼ 4.0 May 2018	3.5 Dec 2011	6.5 Apr 2016	%	Monthly	Jan 2006 - Jun 2018 Updated on 2018-07-17

## 5.2 Multiple Regression Analysis

I have taken the data for 10 years from (2008 – 2017) to conduct my research and show that the Inflation Rate, Real Interest Rate and the GDP has a significant effect on the Non- Performing Loans. Moreover, I have done the Multiple Regression Analysis to show the relationship between the independent variable (NPL) and the dependent Variable (Inflation Rate, Interest Rate & GDP).

**Table 1: 10 Years data of the factors (Inflation Rate, Real Interest Rate, GDP %)**

Series Name	Inflation Rate, (annual %)	Real interest rate (%)	LN Function of GDP	% of NPLs to total Loans and Advances
2008 [YR2008]	7.860966092	4.661742572	25.24103852	2.68
2009 [YR2009]	6.764354686	6.146538327	25.35291194	2.72
2010 [YR2010]	7.14464873	4.736137546	25.47062179	1.62
2011 [YR2011]	7.859446035	5.064202379	25.58026762	1.56
2012 [YR2012]	8.164597746	5.343309217	25.6162862	5.69
2013 [YR2013]	7.174963123	5.988684319	25.73383747	4.38
2014 [YR2014]	5.668754958	6.885900232	25.8758951	5.41
2015 [YR2015]	5.872776577	5.512644779	25.99666873	4.26
2016 [YR2016]	6.727860072	3.449246141	26.12330534	5.31
2017 [YR2017]	6.278682233	3.068647162	26.2436217	5.6

## Table 2: Results

### SUMMARY OUTPUT

<i>Regression Statistics</i>								
Multiple R		0.900269319						
R Square		0.810484847						
Adjusted R Square		0.658872725						
Standard Error		0.959153354						
Observations		10						

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	4	19.67193422	4.917983554	5.345778652	0.04731613
Residual	5	4.599875785	0.919975157		
Total	9	24.27181			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-124.6434039	45.9746522	-2.711133156	0.042219055	-242.8250098	-6.461798053	-242.8250098	-6.461798053
Inflaion Rate	1.080105624	0.603528835	1.789650406	0.133525099	-0.471314636	2.631525884	-0.471314636	2.631525884
in.c	-0.527842696	0.226593481	-2.329469917	0.067255639	-1.110319782	0.054634389	-1.110319782	0.054634389
Interest Rate	0.604606362	0.356001645	1.69832463	0.130200846	-0.310525	1.519737724	-0.310525	1.519737724
GDP	4.732370497	1.622611713	2.916514443	0.033147707	0.561314301	8.903426693	0.561314301	8.903426693

### 5.2.1 Interpretations

- 1 **Multiple R** – Gives us the correlation coefficient and determines how strong the linear relationship is between the independent and dependent variable. Here, the Multiple R value is 0.900269319 which clearly indicates that there is a 90.02% relationship between the variables. To conclude, there is definitely a very strong positive relationship between NPL (Dependent Variable) and Inflation Rate, Interest Rate & GDP (Independent Variables).
- 2 **R Squared** – This is the coefficient of determination which gives us the percentage of points fall on the regression line. In my analysis, the R Square value is 0.810484847 which indicates that 81.05% of the values fits the model.

- 3 **P – Value for Inflation Rate:** It tells us that if the P- Value from the regression analysis is less than 0.15, we can say that there is a significant impact of the independent variable. The P- Value for the inflation rate is 0.133525099 which is lower than the statistical value 0.15 ( $0.1335 < 0.1500$ ). Therefore, we can say that Inflation Rate has a significant impact on the Non – Performing Loans.
  
- 4 **P – Value for Interest Rate:** Interest rate has a P – Value of 0.130200846 which is also less than the statistical value of 0.15 ( $0.1302 < 0.1500$ ). Therefore, we can say that Interest Rate has a significant impact on the Non- Performing Loans.
  
- 5 **P – Value for Gross Domestic Product (GDP):** The findings show that the P – Value of GDP is 0.033147707 and this value is significantly lower than the statistical value of 0.15 ( $0.0331 < 0.1500$ ). To conclude, we can say that GDP has a high significant impact on the Non – Performing Loans.



## CHAPTER 6: RECOMMENDATIONS AND CONCLUSION

### 6.1 Recommendation

- Strong Supervision, follow up and monitoring for the NPL accounts as well as rescheduling & restructured loans to be ensured both by on-site and of-site basis
- There should be a recovery unit in NPL prone branches and a feedback should be taken from the branch every week.
- Strong Legal Actions to be taken
- Proper monitoring, supervision and a good follow up should be kept when the loans are at the early stages so that it does not become a Bad and Loss loan.
- Sufficient staff members should be there to provide services to their values customers and also for special monitoring.

## 6.2 Conclusion

NPLs are firmly identified with the operational effectiveness of banks so with an end goal to make certain spotless tasks of managing a banking industry, it is fundamental to identify the factors that has a significant impact on the gross amount of NPLs in a positive span of time. This report has been concluded by analyzing the trend of Non- Performing loans of past 10 years and the NPL Ratios of other countries have been shown to compare with Bangladesh. Quantitative research has been done using Microsoft Excel which shows us that the most influential factors that has a significant effect on the NPLs include Inflation Rate, Real Interest Rate and GDP. Lastly, the results has been compared with the statistical P - Value of 0.15 with each individual P – Values of the factors to determine whether it has a significant effect or not.

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