Internship Report

On

“Impact of Corporate Governance in Restricting Non-Performing Loans in Commercial Banks of Bangladesh”

Prepared for

Dr.Suman Paul Chowdhury

Assistant Professor

BRAC Business School

Prepared by

Sumaiya Tahsin Ali

ID: 15104210

BRAC Business School

BRAC University

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Letter of transmittal

April 30, 2019

Dr. Suman Paul Chowdhury
Assistant Professor
BRAC Business School
BRAC University

Subject:**Submission of internship report on "Impact of Corporate Governance in Restricting Non-Performing Loans in Commercial Banks of Bangladesh"**

Dear Sir,

This is my pleasure to state that I have prepared my internship report on 'The impact of Corporate Governance in restricting non-performing loans in Commercial Banks of Bangladesh', I have tried to prepare the report according to instructions and I hope it meets all the requirements. I have collected all the information from the secondary research previously done by different authors and the data available on the annual reports of different banks. I have tried to identify the impact of corporate governance on the default loans of a bank by analyzing data of eighteen listed commercial banks.

I would like to thank you for allowing me to work on this topic. Working on this report really helped me to understand the current banking situation. I would also like to mention that, this report might contain some unintended errors and I hope that you would consider that and accept the report.

Sincerely Yours,
SumaiyaTahsin Ali
ID: 15104210
BRAC Business School
BRAC University

Letter of Endorsement

This is to state that, this internship report on "Impact of Corporate Governance in Restricting Non-Performing Loans in Commercial Banks of Bangladesh" is prepared by SumaiyaTahsin Ali, ID: 15104210 under my supervision. The report is prepared to fulfill the requirement of the BBA internship program. She has completed her internship in IFIC Bank. She has worked hard throughout her internship period. During her internship, she followed all the instructions and worked really hard in preparing the report.

I wish her successful future ahead.

Regards,

Dr. Suman Paul Chowdhury
Assistant Professor
BRAC Business School
BRAC University

Acknowledgement

First of all I would like to convey my heartiest gratitude to the Almighty Allah for giving me the opportunity and blessing me with good health to complete this report.

I would like to thank my internship supervisor Dr. Suman Paul Chowdhury for all his continuous guidance, support and patience. His guidance helped me a lot in writing this report. Without his support and advice it would not have been possible for me to complete this report. I am extremely thankful to him for his support during my internship period.

Then, I would like to express my heartfelt gratitude to all the people in IFIC Bank Principal Branch who has supported me and helped me throughout my internship period. I would like to thank Mr. Rafiqul Islam, Branch Manager of IFIC Bank Principal Branch for giving me allowing me to do my internship in the bank. I would also like to express my gratitude to Ms Sylvia Chowdhury for helping me to learn different functions of general banking. I would also express my gratitude to Mr. Amir Hossain for helping to understand how the bank controls the non-performing loans. Without the help of all these people, I would not be able to complete this report. Their support and guidance helped me throughout my internship period in IFIC Bank

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Executive Summary

Non-performing loans is one of the most severe problems that the banking sector is currently facing. The major causes of non-performing loans are lack of proper management, lack of effective corporate governance and monitoring of the banks, borrowers negligence in paying installments, lower GDP growth etc. NPL has a huge impact on the performance of the banks. The income and the profitability of the banks suffer due to increased non-performing loans in banks. The report analyzes the impact of corporate governance mechanisms in controlling the non-performing loans in banking sector of Bangladesh. The report has found that Non-performing loans has a positive relationship with insider ownership and government ownership. However, non-performing loans decrease with increase in foreign ownership. Non-performing loans also decreases with increase in CEO's salary and the number of audit members. The report has found that the board size and the board independence have no significant impact on the volume of non-performing loans in a bank. In order to control the default loans, the banks should use more constructive method to improve the credit operations such as background checking of the borrowers, checking feasibility of the project for which loan was taken and most importantly keeping track of the loan installments after the disbursement of the loans.

Chapter 1: Introduction

1.1. Origin of the Study

The primary purpose of the report is to serve the requirement of BBA program in BRAC University. The curriculum of the BBA course consists of two parts- one is theoretical part which contains different theories and ideas and knowledge and the other part is practical orientation which helps us to learn the implication of the theories. As a part of practical orientation, we need to work in an organization for three months, as an intern. This internship programs teaches us how to apply the theories in our real life, how an organization works. Based on our experience of the internship program, we need to prepare a report.

To comply with this requirement, I have done my internship in IFIC Bank. I worked in the general banking and the credit department. As I worked in the credit department, I have gathered the basic idea regarding loan processing, borrower selection and how they monitor the repayment of the loans. Since I have worked in a bank and I wanted to prepare my report on this sector, hence I decided to prepare my report on the impact of corporate governance in restricting the non-performing loans.

1.2. Background of the Study

The financial sector of Bangladesh contributes significantly to the country's economy. The financial institutions includes banks, NBFIs, asset management companies etc. The banking sector has started its journey after liberation and over the years it has shown tremendous growth in terms of greater volume of deposits and loans, increased number of customers, increased volume of assets and increased profits. However, the banking sector is facing a great number of challenges these days which includes large number of default loans, liquidity crisis, poor corporate governance etc. The number of default loans is increasing significantly every year. The percentage of NPL to the loan outstanding has increased by 300% in last ten years (Hossain & Hasan, 2018). Higher volume of default loans has an adverse impact in the overall performance of the banking sector. As the banks have to keep provision against the bad loans, it reduces the profit of the banks. Corporate governance can influence the total number of default loans in the banks. It provides guidelines through which an organization can enhance its performance and profit. Corporate governance is considered as a framework which includes rules, protocols and policies which determines how a company is managed and monitored. Corporate governance i.e. board of directors, board independence, ownership pattern and audit committee significantly impacts loan sector of a bank. If the board of directors performs their duties independently without the interference of the management, they can reduce the number of default loans. Moreover, audit committee plays an important role in checking the loan disbursement and collection of the installments as well. However, if board members approve loans without proper investigation and if the decisions of independent directors and audit committee are influenced by political pressure, then there is high chance that the loans might turn into non-performing loans in the future. Therefore, it can be stated that, corporate governance can influence the amount of default loans in both positive and negative way.

1.3. Rationale of the Study

Bank is a financial institution that works as an intermediary between the borrowers and the lenders. Banks collect deposit from the public and provide interest on the deposit amount. Then the bank offers that money to the borrowers as loans against a specific interest rate. The borrowers are expected to repay the installments of the loans regularly. However, in many cases, the borrowers do not pay the installments on time. When a borrower does not repay the installments for 90 days or more, then the loan is termed as non-performing loan (Segal, 2019). The volume of NPL is ever increasing in Bangladesh despite all the measures taken. Corporate governance plays a vital role in improving the performance of the banks. The size of the board, the independence of the board and the effectiveness of audit committee has a notable impact on the volume of default loans. The audit committee can reduce the volume of NPL by following up the loans before and after disbursement. The board members can limit the loan facilities provided to the unreliable borrowers. In these ways, corporate governance can curtail the chances of loans turning into default. I wanted to analyze whether the corporate governance can reduce the volume of NPL in commercial banks in Bangladesh. Therefore, I prepared my internship report on “The impact of Corporate Governance in restricting non-performing loans in Commercial Banks of Bangladesh”.

1.4. Objective of the Study

The primary objective of the study is to analyze the present NPL situation in the banking industry and the contribution of corporate governance in controlling the growth of NPL in different banks. The study also analyzes different causes of non-performing loans and the trend of non-performing loans in the banking sector.

Specific Objectives

- To analyze the present scenario of banking sector in Bangladesh
- To understand when a loan is considered as non-performing
- To find out the current NPL scenario in Bangladesh
- To investigate the causes behind increasing non-performing loans
- To analyze the impact of corporate governance mechanisms in controlling NPL

1.5. Scope of the Study

The rising of non-performing loans is a burning issue in the banking sector. I have focused on the impact of corporate governance on reducing non-performing loans. I have discussed about the present NPL scenario in banking sector as well. Therefore, the findings of the report can be used in further research regarding non-performing loans in Bangladesh. The report is prepared based on the data from the annual reports of commercial banks. They can use the results of the report for taking decisions regarding corporate governance such as board size, number of independent directors, CEO's remuneration etc. Thus, the commercial banks can use the information for implementation of effective corporate governance in banks.

1.6. Methodology

The report is based on secondary source of information. All the data used in the report are collected from secondary sources such as newspaper articles, journals and annual reports of the banks. The report does not include any primary data as the employees of the banks were unwilling to share their internal information. The report includes data from five years annual report of eighteen listed commercial banks. This report analyzes the impact of corporate governance on controlling non-performing loans. Multiple regression analysis has been used to measure the relationship between corporate governance mechanisms and non-performing loans.

1.7. Limitations

The report is based on the secondary data available on different sources. All the information and data included in the report are collected from different journals, articles and annual reports of the banks. There are very few reports available on this topic; therefore, availability of the information was one of the limitations. Collecting the information and analyzing them was a challenging work as well. The result of the report is based on the outcomes of the regression analysis; therefore it can differ from the actual result. Moreover, due to the bank's confidentiality policy of not sharing their internal information with outsiders, I could not include any primary data in the report. Another major limitation was time constraint, as this kind of report requires more detailed analysis of the bank's overall performance and other factors, three month is not enough to prepare a report on such important topic.

Chapter 2: Organizational Overview

2.1. Background of the organization

International Finance Investment and Commerce Bank (IFIC Bank) was established in 1976 as a joint venture between the government of Bangladesh and representatives of the private sector in order to establish financial institution and banks in country and overseas. In 1982, IFIC got license to operate as a private commercial bank and establish its first joint venture in Maldives. IFIC started operating as a private commercial bank from 1983. Now the government owns 32.75% of share and the directors and sponsors of the bank holds 11.31% share of the bank. In 1987, IFIC launched its first foreign branch in Karachi and Lahore, Pakistan. In 2011, the bank started its fully owned subsidiary named IFIC Money Transfer UK Ltd (IFIC Bank). According to the annual report of 2017, the total amount of authorized capital was BDT 20,000 million and the paid-up capital was BDT 11,953 million (IFIC Bank Annual Report 2017).

The bank has always focused on adopting the latest technology since its inception. It has introduced computerized branch banking in 1983. Moreover, in order to provide a quick and at the same time quality service to the customers, it has developed a new project with Misys International Banking System Inc. (UK). To promote Cottage, small and medium enterprise (CSME) industry of Bangladesh, IFIC Bank also provides loans facilities without any security to the borrowers who does not meet the requirement of conventional loans. IFIC bank has introduced two new products named “IFIC- Prantonari” and “IFIC Protyasha”, to encourage the women entrepreneurs of the country (IFIC Bank). In 2017, IFIC bank has provided a total loan of TK 771 million to women entrepreneurs (IFIC Bank Annual Report 2017)

To strengthen the retail banking business, the bank has introduced a new and advanced product named “AMAR Account”, in 2017. This account merges the facilities of FDR, current account, savings account and credit card. Moreover, it is the first bank in Bangladesh which has launched one stop service model in all the branches. It also provides online banking and SMS banking facilities, so that the customers can enjoy banking facilities from anywhere in Bangladesh(IFIC Bank). One of the most significant lending products of IFIC bank is ‘IFIC Home Loan. In 2017, the bank has provided home loan facility to 6,165 customers (IFIC Bank Annual Report 2017).

In 2017, the Credit Rating Agency of Bangladesh (CRAB) has rated the bank AA2 which indicates bank's capability to meet the financial obligations in the long-run. Moreover, the bank was rated as ST-2 which implies that the bank has sufficient liquid assets and has access to different sources of fund creation in time of crisis. (IFIC Bank Annual Report 2017)

At present, IFIC Bank has total 141 branches all over the country and the total number of employee is 2,512. It has two fully owned subsidiaries and two joint ventures situated in Nepal and Oman. (IFIC Bank Annual Report 2017)

2.2. Subsidiaries of IFIC Bank

- IFIC Securities Limited
- IFIC Money Transfer UK Limited

Source:(IFIC Bank)

2.3. Joint Ventures of IFIC Bank

- Nepal Bangladesh Bank Limited
- Oman Exchange LLC

Source: (IFIC Bank)

2.4. Mission

> "The mission of IFIC bank is to deliver the best service to the customers with the help of talented and experienced work-force. It also aims to establish a unique position in the industry by delivering the best service to different customers and institutions. IFIC bank wants to become the market leader in Bangladesh and contribute to the regional banking operating overseas. It also aims to contribute to the economic development and well-being of the society. Further the mission of IFIC bank is to achieve growth and profitability in the competitive and complex business environment". Source: (IFIC Bank).

2.5. Vision

The vision statement of IFIC Bank

> "At IFIC, we want to be the preferred financial service provider through innovative, sustainable and inclusive growth and deliver the best in class value to all stakeholders".

Source: (IFIC Bank)

2.6. Core Values

- ✓ Integrity
- ✓ Fairness
- ✓ Innovation
- ✓ Commitment

Source: (IFIC Bank Annual Report 2017)

Chapter 3: Internship Experience

According to the course curriculum, the students need to work in any corporate organization as an intern to complete the requirement of BBA course. This internship program helps the students to gather practical knowledge. It helps them to link their theoretical knowledge with practical experience. All the other courses basically focus on developing the theoretical knowledge, however, this internship program gives the students the chance to understand the implication of their knowledge in the practical world, and they get to know how an actual business works.

I always wanted to build my career in the banking sector, so I decided to do my internship in IFIC Bank, Principal Branch under the supervision of Mr. Omar Sharif, Branch Operation Manager. I worked in the general banking division for two months, then I was transferred to the credit division.

3.1. General Banking

I worked in the general banking division for two months. During that time, my supervisor helped me to develop the basic idea of the transactions of the bank. I had to communicate with customers, solve the queries of the customers and help them to fill up the account opening form as well. Dealing with daily vouchers was also one of my responsibilities. I also helped my supervisor in verifying customer information such as verifying NID cards, customer address, finding out WLC report and uploading customer information on DMS (Document Management System) etc.

3.2. Credit Section

I worked in the credit department for one month. I learned about different types of loans that IFIC bank provides, from there. I also learned about the borrower selection criteria of the bank, what are steps the bank takes while choosing their borrowers, the documents required for applying for a loan. Moreover, I have assisted my supervisor in preparing the CRG (Credit Risk Grading) report and CIB (Credit Information Bureau) request form. Moreover, I also learned causes behind a loan turning into NPL and also what are the steps the bank takes to collect the loan amount from Mr. Amir Hossain, Head of NPL Management of Principal Branch.

Through this internship program, I could understand the implication of the theoretical knowledge learned in the classroom. The experience, I gathered from this internship has helped me to develop myself as a better person. I have learned how to deal with customers, how to work under pressure, above all I could get a practical experience of how a bank works. All these experiences have helped me to prepare myself for my future. The employees of the bank were really helpful. They always tried to help me whenever I faced any trouble. They helped me to understand functions of bank. With their support I was able complete all the assigned tasks correctly.

Chapter 4: Non Performing Loan in the Banking Sector of Bangladesh

4.1. Banking Sector in Bangladesh

The banking industry initiated its journey with 6 nationalized commercial banks, 3 state owned specialized banks and 9 foreign banks after independence (Bangladesh Bank). In order to overcome the post independence structural problems, the major financial reform started in 1982. The banking reform system promoted private ownership of the banks and denationalization of nationalized commercial banks (NCB) (Islam & Hamid, 2012). These banks were known as the first generation banks. In 1990, another reform was initiated and a large number of private banks got license during this time and these banks are known as the 2nd generation banks(Islam & Hamid, 2012). In 2013 nine new third generation banks permitted authorization to operate in the country (Hasan, 2018) and in 2018 Bangladesh bank permitted license of three new commercial banks (Hasan, 2019). At present there are 59 scheduled banks in Bangladesh (Bangladesh Bank).

The financial sector of Bangladesh consists of banks, non-bank financial institutions, stock exchanges, investment banks, insurance companies etc. The banks work as an intermediary between the lenders and the borrowers, by borrowing funds from the lenders and proving funds to the borrowers. The banking sector of Bangladesh is one of the significant contributors to the economic growth of Bangladesh. The banking sector has began its journey after liberation and over the years it has shown considerable advancement in terms of greater volume of deposits and loans, increased number of customers and increased amount of assets. However, the banking sector of our country is facing several problems such as poor governance, lack of proper management system, increased number of classified loans and loan defaults. The amount of non-performing loans is growing every year. According to Bangladesh Bureau of Statistics, in FY-18, the growth of banking sector declined to 8.51% from 9.95% (Kabir, 2019). Moreover, the banking sector has also faced liquidity crisis and one of the major reasons behind this is increasing number of loan defaults and bad governance in the banks. According to the data of Bangladesh Bank, the total number of default loans was 993.7 billion in September 2018 which is largest in the history of Bangladesh (2019). The ratio of non-performing loan to total loan is 11.45% (Uddin, 2018). Moreover, Farmers bank was arraigned of providing significant amount of loans to the debatable companies without any proper loan application and eventually it failed to recover the loan (Alo, 2018). It was also reported that they could recover only BDT 2 crore from its BDT 1521 crore classified loan (Alo, 2018). Furthermore, in the year 2018, Janata bank has suffered from substantial amount of loan default (Hasan, 2018). Further, due to poor corporate governance, increased political intervention and poor government supervision the banking sector is facing these problems. As a result, it can be said that the sector is in a dire condition.

4.2. Non Performing Loan

Banks work as an intermediary that channels the fund between the borrowers and the depositors. The borrowers pay fixed monthly installments to the bank against the loan. However, the borrowers sometimes fail to repay their loans. As a result the loans turned into default loans. According to (Segal, 2019) non-performing loans refer to the total amount of loan upon which the bank has not received the installments for a specified period of time. When a bank does not generate any income from a loan or cannot acquire the interest on loans or the principal amount of the loan for 90 days or more, it is termed as non-performing loans.

According to IMF definition of non-performing loans, "a loan is considered as non-performing when the borrower has not made any payments of interest and the principal for 90 days or more"(Bloem & Freeman, 2005). When a loan turns into non-performing loans, there are very few chances that the full payments will be recovered. Non–performing loans create an adverse effect on the bank performance. As the bank cannot collect the money from the borrowers, they cannot use that money for investing elsewhere. Moreover, the bank needs to keep provision against the loan. Due to the increased number of non-performing loans, sometimes the banks cannot pay back the depositor's money.

The non-performing loans are also considered as non-performing assets of the banks. The banks provide loans to the borrowers in order to generate income from the interest payments but the classified loans do not provide any earning to the banks so they are regarded as (NPA) non-performing assets (Kagan, 2018).

4.2.1 Non-performing Loans in Bangladesh

The non-performing loans are one of the critical problems of the banking sector in Bangladesh. The number of default loans is rising every year. The NPL percentage has reached to 11.45% in September, 2018 (Uddin, 2018) which is 5 times higher than the international standard (2018).NPL has increased by 300% during last 10 years (Hossain & Hasan, 2018).

The total number of non-performing loans in last decade is given below:

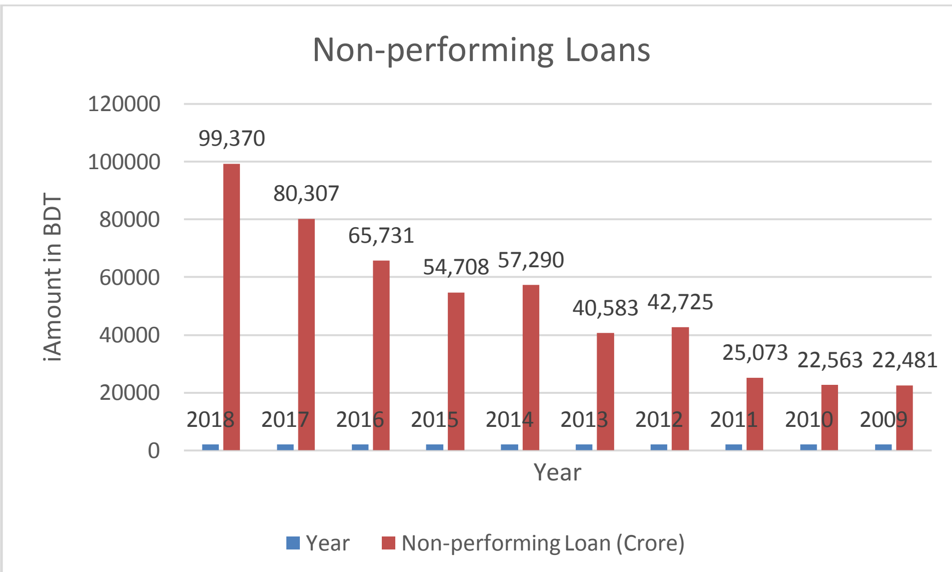

Figure 1 amount of non-performing loans

In 2018, the total amount of default loans of the state-owned commercial banks was BDT 42,852 crore, however, the amount for private commercial banks was BDT 38,975 crore, specialized banks was BDT 5,241 crore and foreign commercial bank was BDT 2,271 crore (Hossain & Hasan, 2018).

The graphical representation of NPL distribution among banks is given below:

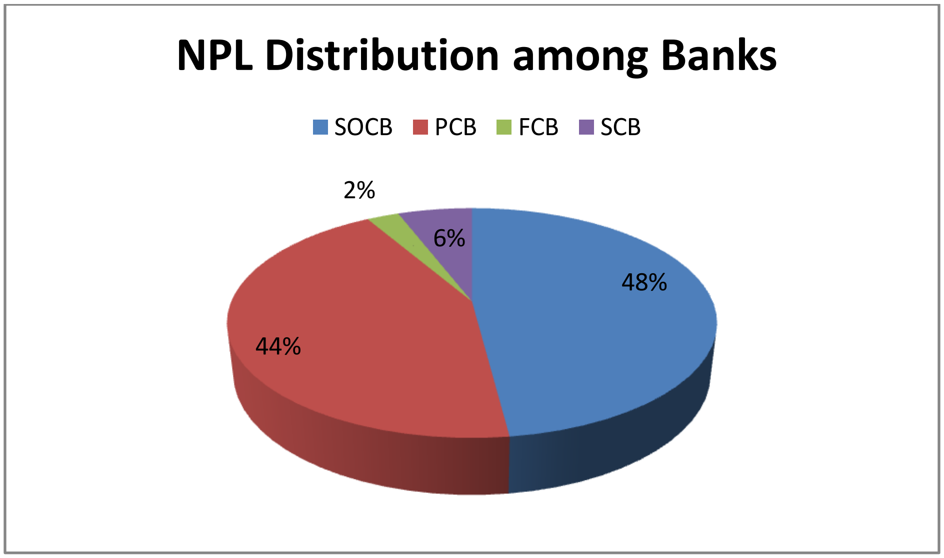

Figure 2 Distribution of non-performing loans among banks

According to the graph, state-owned banks have the highest NPL percentage in 2018. As the state-owned banks have to provide loans to the specialized sectors such as jute, agriculture etc. and when they fail to repay the money, the banks cannot take corrective actions against them (Hossain & Hasan, 2018). Moreover, because of political and government intervention, they have to provide loans to the companies who are not qualified for these extensive amount of loans. On the other hand, foreign commercial banks have the lowest NPL percentage which is 2%. Moreover, the NPL percentages of private commercial banks were also high.

Farmers bank was accused of lending a large amount of loans to some doubtful companies without even any application and consequently, they failed to recover loans; As a result the NPL stood at BDT 3,070 crore or 58% of their total outstanding loans in 2017 (Alo, 2018). Moreover, Janata bank has also suffered from large amount of loan default. According to the banking company act 1991, the commercial banks are not allowed to give a single borrower more than 15% loan of their paid-up capital without prior approval of Bangladesh bank (Roy, 2018). However, Janata bank gave BDT 8,300 crore loan to Annontex and Crescent, violating the central bank's single borrower exposure limit. The companies could not repay BDT 7,600 crore. In 2018, the total amount of loan default of Janata bank was BDT 17,224 crore (Alo, 2019).

4.2.2. Causes of Non-performing Loans in Bangladesh

The non-performing loans are one of the most crucial problems of the banking industry. The volume of NPL is rising every year. After reading some articles on NPL, I have found out some of the major causes of increasing non-performing loans in Bangladesh.

The causes of NPL are given below:

- **Poor Corporate Governance:** Sometimes, the management of the banks provides loans to their friends, relatives and different political parties without proper investigation which results into poor corporate governance. In an ideal situation the banks are meant to provide loans after a thorough check of the person, company and specially the feasibility of the project. And because they disburse the loan with biased attention, they are more likely not to keep any track of that loan afterwards. Moreover, the audit committee and the independent directors cannot work independently in most of the banks. The board members are also engaged in providing loans to the related parties and rescheduling loans to support these people despite of the bank's rules. In many cases, these loans are converted into non-performing loans only because of the traditional practice of poor corporate governance.
- **Poor monitoring of loans:** It is important to supervise the loans after disbursement to know whether the loan amount is used for the specific purpose for which the loan was taken. Generally, the banks authorize the loans on a particular project's liability. To ensure that it is also significant that the financial performance of that project is monitored, as the banks expect the projects to generate an intended cash flow. If the adequate amount of cash flow is not generated by the project, the debtors will not be able to repay the loan amount. Moreover, if the disbursed loan is used for any other purpose than its specific project, then there is high chance that it may turn into default loans. In order to keep track of the disbursed loan the management should keep monitoring whether the installments are paid on time by the debtor. And it is important that the bank provides the loan after a background check on the person or company that's borrowing.

- **Changes in Government policies:** Government policy indirectly affects loan defaults. Changes in government policies have an impact on the sales and distribution of different products. For example: a company produces cigarettes but the government has increased the tax on tobacco production. Then the business will not generate the anticipated profit. As a result, the borrower will not be able to repay the installments which will lead to non-performing loans.
- **Influence of Political Parties:** Sometimes, the political parties and notorious leaders of the country pressurize the banks to disburse loans to their companies. In this situation the bank has to lend large amount of loans even if they are not eligible for loan and most of the time these loans turn into non-performing or default loans. Moreover, the political leaders are also responsible to influence the rescheduling and restructuring decisions of the banks.
- **Reluctance of the borrower:** There are some people who always try to avoid the repayment of the loans and it is a common scenario in Bangladesh. If the borrowers feel that they can easily escape without repaying the money and when the security of the loan is weak, they do not pay the installments. This happens when the borrowers do not have any sense of responsibility of their liability. In addition, if the business does not generate sufficient cash-flow, the borrowers do not want to repay the loans.
- **Inadequate Business Knowledge:** The customers take loan from the banks to start a new business without having sufficient knowledge of the business and the industry. Consequently, the business fails to generate sufficient revenue and the borrower fails to repay the loan.
- **Unhealthy Competition among Banks:** Due to increased competition among banks, the banks increase the credit limit of the existing customers and also provide loans to new customers without proper investigation. As a result, borrowers are given loans with less documentation and use money for other purposes. However, this can easily lead the customers fail to repay the loans as the size of the business does not increase with credit amount and the loans turn into non-performing loans.

- **Poor Performance of Firms:** One of the key reasons of loan default is poor performance of the borrowers firm. If the firm has a poor financial performance then the borrower will fail to repay the loan. Moreover, if the firm has poor cash flow that means the business is not in a good condition and the firm does not have ample liquid cash on hand, which means the borrower cannot repay the loan amount.
- **GDP growth rate:** The businesses that produce and sell consumer products are directly affected by GDP growth of the country. When the GDP growth rate is high, the consumer's income and purchasing power increases as a result the businesses generate greater profit. However, lower GDP growth has an adverse impact on the profit generation of the company and the repayment of the loan of the borrowers.

Chapter 5: Impact of Corporate Governance in Controlling NPL in Bangladesh

5.1. Problem Statement

As I was doing my internship in a bank I wanted to prepare the report on one of the major problems that the banking sector is currently facing. While doing my research I found that the number of non-performing loans is increasing every year at the same time the growth of the banking sector is also declining due to this. The profits of the banks are decreasing due to non-performing loans. When I read some articles regarding NPL problem in Bangladesh, I found out that one of the major reason behind increasing NPL is poor corporate governance in banks. Lack of proper monitoring of the credit operation by the board members and audit committee is another major cause of increasing NPL. The major decisions of the banks are taken by the board members and the based on corporate governance policies. For this reason I choose this topic to find out how the components of corporate governance impact the non-performing loans in banks.

5.2. Corporate Governance

According to Business Dictionary, corporate governance is referred as a framework of laws and practices which includes an agreement among the stakeholders and the processes by which the company is directed and maintained(BusinessDictionary). The framework is generally comprised of the responsibilities, accountabilities, roles and even privileges of the shareholders and board members and also in most cases they are the ones who approve the rules of the framework by setting it up. It includes a set of rules and practices by which an organization is guided and operated (Chen, 2018). The most important indicators of efficient corporate governance are board size, board independence, and effective audit committee (Akhter & Alam, 2017). Moreover, good corporate governance aligns the interest of different stakeholders of the organization. Corporate governance sets an operating standard in a company ensuring that all the stakeholders' prospects are fulfilled to some extent. Although the basic principle of a company's corporate governance remains same which are transparency and trust, the structure is be different for individual organizations (Price, 2017).

The culture of a company is majorly influenced by the corporate governance if the stakeholders are more involved. For example, Nestle has its own culture as the board of directors is immensely involved in setting the principles, strategies and goals for their employees. Good corporate governance which includes transparency and trust is the foundation of Nestlé's almost never changing success (Price, 2017). Eventually, excellent corporate governance has proven to be a competitive advantage for an organization. Corporate governance influences the strategic decision making of the directors and the way it regulates the company (Price, 2017).

The impact of corporate governance on the non-performing loans is quite significant as the number of board directors, stakeholders, independent directors etc influences the loan sector of a bank or any financial institutions. For example, after conducting a survey in Pakistan banking sector it has been revealed that a small number of board members has positive effect on the non-performing loans. While, on the other hand if the owner is one person or very few they have more accountability, so they could either bring more profit or very less profit. In order to keep their position they more likely try to generate more profit. The power that lets them keep their position is brought by the voting law of the institution which is allowed by the corporate governance of that organization.

Corporate governance is basically based on ethics, transparency, and culture and also generates rules and practices that lead to profit maximization. And non-performing loans negatively impacts the financial institute to earn profit. The decisions regarding credit policy are taken by the board members and the CEO. If the board members and audit committee monitor the overall loan disbursement process and avoid lending to doubtful parties then the chances of loans turning into default loan declines. However, sometimes the board members take loans from their banks and do not repay the loans. Therefore, corporate governance variables such as board size, dictatorship or democracy in the board members, independent director, CEO, has been influencing the non-performing loans in both positive and negative way.

5.3. Literature Review & Hypotheses Development

Corporate governance is referred to as a framework which includes a set of rules, practices and mechanisms which guides the actions of a firm (Chen, 2018). Corporate governance influences the culture, organizational values and structure of the organization (Price, 2017). Corporate Governance consists of some policies, procedures and regulations which are essential for the prosperity and wellbeing of any organization. The key elements of effective corporate governance include board of directors, independence of the audit committee and the directors (Akhter & Alam, 2017). Good corporate governance protects the rights of the shareholders of the organization and helps to diminish the agency problem. It controls the activities of the management and directors and ensures that stakeholders' get their desired results.

5.3.1 Board Size

A board is one of the fundamental components of corporate governance(Brennan, 2006). The functions of the directors include assigning the CEO (Chief Executive Officer) and other top management executives and evaluate their performance (Hermalin & Weisbach, 2003). Moreover, board of directors provides guidance and suggestions to the management of the organization as well (Raheja, 2005). In a study named 'Boards of Directors and Firm Performance: is there an expectations gap?' the author has mentioned that board performance is influenced by the structure of the board, board independence and ownership pattern (Brennan, 2006).

According to (Topak, 2011) the number of board members does not have any influence on performance in terms of ROE and ROA. The experience and competence of the board members has a positive influence on performance. If the board consists of members who have previous working experience in similar sectors then they can improvise the organizational performance. However, another study shows that there is a negative relationship between board size and firm's performance. If the board size is small then the board members can easily call meeting in a short notice and they can easily reach to a unanimous decision (Nath, Saha, & Islam, 2015).

There are some studies that show a positive relationship between board size and organizational performance. Large board is preferred by the organizations that operate in multiple different sectors as they require greater number of experienced directors who can provide proper direction and expert advice (Boone et al. 2005). Moreover,(Forbes, P., & Milliken, 1999) has also found similar results in his studies. Firms with large board size have more proficient and skillful people who can help the firm in maintaining better relationship with others and enhance organizational progress (Forbes, P., & Milliken, 1999).

According to the guidelines of Bangladesh Securities and Exchange Commission (BSEC) amendment (2012), the number of board members of a company should not be less than five or more than twenty(Bangladesh Securities and Exchange Commission, 2018). From the diverse performances of the banks operating in the country in terms of NPL and profitability it seems that the knowledge and expertise about the overall economic scenario is more important than the size of the board. If the board size is small and its members are highly qualified then they can formulate credit policy of a particular bank in a pragmatic manner then they will be able take decision in approving loan proposals that would improve the quality of asset and subsequently keep the loans from becoming NPL. However, if the board size is large then it becomes difficult to organize frequent meetings and sometimes the board members do not agree on the same conclusion therefore it becomes difficult to reach to a unanimous decision. As a result, the efficiency of the board deteriorates.

H_1: There is a positive relationship between size of the board and Non-performing Loans

5.3.2 Board Independence

According to the guidelines of Bangladesh Security and Exchange Commission (BSEC) (2012), the number of independent directors should be at least one fifth of the total number of directors on the board(Bangladesh Securities and Exchange Commission, 2018). Boards having greater number of outside directors can perform their functions independently and thus uphold shareholder’s interest (Brickley & Zimmerman, 2010). However, most of the firms in emerging countries are controlled by the members of the same family. The family members hold positions in both management and company board and they mostly appoint their friends as independent director. As a result, the independent directors cannot take decisions independently (Anderson & Reeb, 2004). According to Bhagat and Black (2002), the poor performing companies are more likely to appoint independent directors to improvise their performance in emerging countries. However, Gomez (2017), Kakabadse et al. (2010) found that independent directors have no impact on firm's performance. Furthermore, it was stated that because of excessive interference of controlling shareholders and lack of knowledge, the independent directors cannot perform their roles effectively as a result they cannot influence the firm performance. However, in another research, the author found that the return on assets, earnings per share and profit margin are positively correlated with percentage of independent directors (Abdullah, 2004). Independent directors have the knowledge and competence in diverse sectors and their judgments are not influenced by the management, so they can take decisions which are beneficial for the firm.

Independent directors can influence the performance of the organization as they can take impartial decision about a loan sanction. If the board members approve any loan without having merit on account of allowing undue facilities to some quarters, then the independent directors can oppose that decision. Independent directors can also bring changes to the loan sanction and borrower selection criteria for the better interest of the banks. Since the Independent directors come from various sectors having both theoretical and practical experiences in overall economic scenario of the country, they can take better decisions about the credit policy of the bank and with this, can decrease the number of non-performing loans in the bank.

***H_2*: There is a negative relationship between independent directors and Non-performing Loans**

5.3.3. Audit Committee

Audit committee plays a significant role in supervising and controlling the performance of top management and protects the rights of the shareholders. Audit committee reduces uncertainty, improves the quality of financial records and company performance(Herdjiono & Sari, 2017).(Alqatamin, 2018) investigated the performance of listed non-financial institutions in Jordan and found that the size and level of independence of audit committee has a significant positive association with organizational performance; however there is no association between the recurrence of audit committee meetings and firm performance. An independent audit committee can evaluate the firm's financial reporting process without the interruption of management(Kallamu & Saat, 2015). However, a smaller audit committee with experienced and skilled members has a notable positive association with organizational performance as in crucial times an audit committee with fewer members can easily take decisions (Aldamen et al. 2012).

Moreover, audit committee members should be free from management's influence to perform their roles effectively (Lin, Xiao, & Tang, 2008). In a study named 'The role of Audit committee and its impact on firm performance in India', the author stated that if the audit committee meet frequently then they can detect the errors and fraud in the financial statement and present the actual financial status to the board of directors and the shareholders(Sujatha, Dr.Muninarayanappa, & Dr.Sathyan, 2017).

An effective audit committee of the board can play significant role in improving bank's health and performance in key indicators. As this committee monitor the overall performance of the banks and the performance of the employees as well it can reduce the number of default loans by ensuring loan documentation before and after disbursement through appropriate mechanism and seeing that whether the borrowers are repaying the installments against the loans regularly as per terms of sanctions; if not, can ask the management to find the reasons behind this and also take corrective measures so that the loan does not turn bad. The Audit committee can influence the borrower selection process also by putting up specific criterion in this regard. If the audit committee frequently checks the status of the loan and the performance of the project for which the loan was extended, then it can help reducing the chances of the loans turning into default loan.

H_3: There is a negative relationship between audit committee and Non-performing loans

5.3.4. CEO Remuneration

According to agency theory, CEO compensation should be associated with firm performance (Jensen & Murphy, 1990). CEO remuneration is positively associated with firm performance. If the CEO remuneration is related with firm's performance then CEO will perform their roles efficiently in order to improve the firm's performance. Moreover, if the CEO's are given attractive remuneration then they will be more motivated to perform their job with full dedication. Authors named Raithatha&Komera (2016), Sigler (2011), and Harun & Hamid (2016) found similar results in their studies. However, some other studies have found that CEO's salaries are extremely high and it has no association with firm performance (Bebchuk & Fried, 2004).

The CEO's compensation should be aligned with the bank's overall performance. Whenever a new CEO gets appointed he is seen more concerned about increasing the income of the bank immediately. For this reason, he provides large amount of loans to different borrowers rather than taking steps to recover the default loans. As a result, over the years the overall profit of the bank declines as previous loans tends to get stuck up. As the banks have to keep more provision against the default loans, the total income declines in a steady manner. However, if the CEO's compensation is linked with overall performance of the banks including the health of the assets, i.e. lower quantum of default loans, then he will be more concerned about reducing the number of non-performing loans. If the CEO's are not given an attractive compensation package, then they will not monitor the performance of the banks efficiently.

H_4: There is a negative relationship between CEO remuneration and Non-performing loans

5.3.5. Ownership Pattern

Different researchers have studied the relationship between the ownership structure and the firm performance and they found mixed results. Distinct ownership structures have different impact on firm performance. As the institutional investors are more experienced and knowledgeable than individual investors, they are more involved in corporate decision making and more effectively monitors the top-management decisions and thus improve organizational performance (Brickley, Lease, & Smith, 1988). Institutional investors have better access to information, knowledge and skills and they can use them for making better decisions for the company. Further, large institutional investors have better analytical ability which results in higher profitability for the company (Chung, Firth, & Kim, 2002). (Tahir, Saleem, & Arshad, 2015)found a positive relationship between institutional ownership and the firm performance in emerging countries. However, (Charfeddine & Elmarzougui, 2011), (Fehr, 2016) argued that institutional ownership affects the firm performance in a negative way. If the large institutional investors are closely allied with the management then they will support the management decisions, which can be harmful for the company. Furthermore, Kalsie and Shrivastav(2017) have also found a positive relationship between foreign ownership and firm performance as foreign ownership reduces agency cost and improves firm performance. However, as the foreign owners cannot get all the information regarding the company and the economy of the country, they cannot monitor firm performance effectively (Phung & Le, 2013). According to (Tran, Nonneman, & Jorissen, 2014), firm performance (ROA and ROE) is negatively correlated with government ownership as when the government ownership increases in a bank, then the bank has to take decisions because of political pressure. The banks have to disburse loans to different parties who are not eligible for the loan due to political pressure and excessive government intervention. On the other hand, Yu(2013) argued that government ownership has a positive impact on firm performance as the firm can get support from the government and political parties.

Insider ownership refers to the ownership of directors and sponsors. If the insider ownership increases in the company, then performance of the bank increases Sarkar and Sarkar (2000). As the insiders have more information about the bank, they can monitor bank's performance more effectively and take better decisions. When the maximum number of shares is owned by the insiders, then they will avoid decisions which can reduce the bank's profit. So, they will not disburse loan to doubtful parties and they will monitor the loans properly before and after disbursement. However, sometimes the directors grant loan proposals of their friends and family without judging the merit. Besides, the directors availing large loans from their sponsored banks and often found to be reluctant in repaying the same as per terms of the facility that causes becoming the loan bad and eventually the bank faces serious debacle including closure as we have witnessed in the case of Farmers Bank.

H_5: There is a positive relationship between insider ownership and Non-performing loans

When the government participation in ownership increases in a bank, the bank sometimes compelled to take decisions due to political considerations although they are harmful for the bank. Sometimes, because of the government influence, the bank has to disburse large amount of loans to dubious companies or individuals even though they does not meet all the criteria of borrower selection. As a result, after some years the companies fail to repay the principal along with the interest amount and thus become default loans.

H_6: There is a positive relationship between government ownership and Non-performing loans

Foreign ownership can reduce the number of default loans in a bank. The foreign owners have their own credit policy and guidelines regarding loan sanction. They follow more constructive criteria for borrower selection; as a result the chances of a loan turning into bad debt become very low and consequently, the amount of NPL decreases in a bank. Moreover, if we compare the number of default loans in foreign banks and private commercial banks then we can see that the total number of non-performing loans is much higher in private commercial banks which also indicate that foreign ownership has a negative relationship with non-performing loans.

H_7: There is a negative relationship between foreign ownership and Non-performing loans

5.4. Methodology

All the data used for this study are collected from secondary sources such asannual reports. As the bank does not reveal their internal information to general public therefore, I could not use any primary data. The report includes five years data (2013- 2017) of eighteen listed commercial banks of Bangladesh. As on April 2019, there are thirty listed commercial banks in total and among them I have used the data of eighteen banks. Therefore, the sample size is 90.

The purpose of the report is to find out the impact of corporate governance in restricting NPL in commercial banks. Based on prior literature done by (Topak, 2011), (Herdjiono & Sari, 2017), (Yu, 2013) and Sigler (2011), this study uses board size, board independence, audit committee, CEO remuneration and ownership pattern as corporate governance mechanisms. In addition, firm characteristics such as firm performance, relative growth and firm size are also used as control variable in the model. The dependent variable is measured as the percentage of non-performing loans over total loan of the firm. The corporate governance mechanism includes the board size, number of independent directors, audit committee size, CEO remuneration and ownership pattern of the banks. The firm performance is measured by ROE and the amount of total assets is measured as the firm size. The definitions of all variable are state in the following table.

Table 1 Definition of the Variables

Symbol	Variable	Definition
NPL	Non-performing Loan	Percentage of non-performing loan over total loan
BdSize	Board Size	Log of total board size

BdIndp	Board Independence	Percentage of independent director on the board
AdCom	Audit Committee	Percentage of audit committee members
CEORem	CEO Remuneration	Log of CEO remuneration
InsOwn	Insider Ownership	Percentage of shares owned by the sponsors and directors
GovtOwn	Government Ownership	Percentage of shares owned by the government
ForOwn	Foreign Ownership	Percentage of shares owned by the foreign investors
FmSize	Firm Size	Log of total asset
ROE	Firm Performance	Return on Equity
RGro	Growth of Firm	Relative growth over five years

The multiple regression analysis has been used to analyze the relationship between independent variables and dependent variable. The significance level of the regression model is 10%.

The regression equation is given below:

$$\boldsymbol{NPL = \alpha + \beta_1 BdSize + \beta_2 BdIndp + \beta_3 AdCom + \beta_4 CEORem + \beta_5 InsOwn + \beta_6 ForOwn + \beta_7 GovtOwn + \beta_8 ROE + \beta_9 RGro + \beta_{10} FmSize}$$

5.5. Descriptive Statistics

The descriptive statistics of the sample is given below

Table 2 Descriptive Statistics of the Variables

Variable	Count	Average	Standard Deviation	Maximum	Minimum
NPL	90	5.13	1.49	9.08	2.08
BdSize	90	13	3.69	20	5
BdIndp	90	2	0.78	4	0
AdCom	90	5	0.75	6	3
CEORem	90	12.53	3.02	21.55	7.27
InsOwn	90	37.58	12.43	62.33	5.92
ForOwn	90	3.74	7.79	25.7	0.00
GovtOwn	90	2.00	7.51	32.75	0.00
ROE	90	11.54	3.68	20.16	0.13
FmSize	90	211.47	65.52	36.82	88.95
RGro	90	122.22	22.63	200.39	91

By analyzing the table 2, we can conclude that the average percentage of NPL of the sample banks is 5.13% with a standard deviation of 1.49. The maximum NPL percentage is 9.08% which is quite high and the minimum percentage of NPL is 2.08%. According to the guidelines of BSEC 2012, the number of board members should be within the range of 5 to 20 members(Bangladesh Securities and Exchange Commission, 2018). From the table, we can see that the maximum board size is 20 and the minimum board size is 5, which shows that the banks have followed the guidelines of BESC. Further, according to the BESC guideline, the number of independent directors must be at least one fifth of the total number of directors. From the table, we can see that the average number of independent director is 2 with a standard deviation of 0.78. Besides, the maximum number of independent director is 4 whereas the minimum number is 0. Furthermore, the number of audit committee members ranges from 3 to 6 with an average of 5 members. The sponsors and directors own on an average 37.58% shares. On the other hand, the foreign investors and government owns 3.74% and 2% shares on an average. The compensation of CEO ranges between 7.27 million to 21.55 million. Moreover, the average size of the sample banks is BDT 211.47 billion. The ROE of the sample banks ranges from 0.13 to 20.16 with an average of 11.54 and standard deviation of 3.68. The highest relative growth of banks is 200 and the lowest is 91 with an average relative growth of 122.22.

5.6. Regression Analysis& Principal Results

The report includes data collected from the annual reports of the eighteen listed commercial banks in Bangladesh. The sample size is 90 and I have used multiple regression model to analyze the data.

Table 3 Summary Output

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.55279
R Square	0.30557
Adjusted R Square	0.21767
Standard Error	1.32309
Observations	90

Here, R^2 is 0.305 which is the coefficient of determination which indicates how strong the model is. However for multiple regression models we use adjusted R^2 instead of R^2. The adjusted R^2 is 0.217 which indicates that 21.7% variation in the dependent variable can be explained by the model.

Table 4 ANOVA Table

ANOVA					
	Df	*SS*	*MS*	*F*	*Significance F*
Regression	10	60.855	6.0855	3.4763	0.0008
Residual	79	138.295	1.7505		
Total	89	199.150			

The ANOVA table demonstrates the significance level of the model. If the p values is equals to or lower than 0.10 then the model is significant. Here p value is 0.0008, which is lower than 0.10, therefore, we can conclude that the whole model is significant.

Table 5 Coefficient of the Variables

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	17.5931	18.4922	0.9513	0.0344
BdSize	-0.6354	1.1056	-0.5748	0.5671
BdIndp	-2.3244	2.2296	-1.0425	0.3003
AdCom	-2.3316	2.4645	-0.9461	0.0347
InsOwn	0.0202	0.0183	1.1001	0.0275
ForOwn	-0.0502	0.0274	-1.8324	0.0707
GovtOwn	0.0503	0.0283	1.7764	0.0795
ROE	-0.1552	0.0449	-3.4569	0.0009
CEORem	-1.7253	0.7518	-2.2949	0.0244
RGro	0.0081	0.0075	1.0738	0.0286
FmSize	0.7202	0.5702	1.2629	0.0210

The table indicates the relationship between the independent variables and the dependent variable. From the table, we can get the following regression equation:

NPL = 17.59 + (-0.635)BdSize + (-2.324) BdIndp+ (-2.332) AdCom+ 0.0202InsOwn + (-0.0502) ForOwn+ 0.0503 GovtOwn+ (-0.155) ROE + (-1.725) CEORem+ 0.0081RGro + 0.720 FmSize

Board Size: Based on our hypothesis (H_1), we expected that board size has a positive relationship with NPL. We expected that if the board size increases then the volume of non-performing loans will also increase. However, the regression equation shows a different result. From the regression result, we can see that the board size has a negative relationship with percentage of NPL, which means that if the board size increases then the NPL (%) of the bank will decrease. According to the equation the correlation coefficient of board size is -0.635 which means that if the board size increases by 1 then the NPL (%) will decrease by 0.635. However, the p-value is 0.56 which is higher than significance level 0.1 that means the result is insignificant and unreliable. Therefore, we can conclude that board size has no impact on volume of non-performing loans.

Board Independence: The second hypothesis (H_2) was 'board independence has a negative relationship with NPL'. We expected that if the numbers of independent director increases on the board then the volume of non-performing loans will decrease. But the regression result does not support our hypothesis. From the regression result we can see that percentage of independent directors in the board has a negative relationship with NPL but the result is insignificant and unreliable. The coefficient of correlation for independent directors (%) is -2.324 which indicates if the percentage of independent directors in the board increases by 1 percent then the NPL will decrease by 2.324 percent. However, the p-value for the equation is 0.3 which is higher than significance level 0.1; thus, this result is insignificant and unreliable. So, we can conclude that board independence has no significant impact in controlling the volume of non-performing loans.

Audit Committee: The third hypothesis (H_3)-audit committee members have a negative relationship with non-performing loans is supported by the regression result. The coefficient of correlation of the percentage of the audit committee members is -2.332 with NPL. The audit committee members have a negative relationship with NPL. Therefore, 1 unit increase in the percentage of audit committee members will result in 2.332 unit decrease in the amount of non-performing loans. The p-value of the equation is 0.034 which is lower than the significance level 0.1; therefore, the test result is significant. The audit committee plays a significant role in monitoring the performance of the banks and its employees. As they can reduce the volume of default loans by monitoring the borrower selection process, by frequently checking the status of the loan and the performance of the project for which the loan was extended.

CEO Remuneration: According to hypothesis H_4, CEO remuneration has a negative relationship with NPL. The hypothesis is supported by the results of regression. The regression result shows a negative relationship between CEO remuneration and the volume of NPL. If the compensation of the CEO increases then it will lead to a decrease in the amount of non-performing loans. CEO compensation has a correlation coefficient of -1.725 with NPL which indicates that 1 percent increase in CEO compensation will lead to a 1.725 decrease in the volume of non-performing loans. The p-value for the result is 0.02. Here p-value (0.02) < 0.1, that means that the test result is significant and reliable. If the compensation of the CEO increases then he will be more motivated to perform his work efficiently. If his salary is linked with bank's key performances such as profit, enhancing asset quality by taking steps among others reducing volume of default loans then he will follow more constructive criteria for loan disbursement and borrower selection and as a result NPL will go down.

Ownership Pattern: According to the hypothesis H_5, the insider ownership has a positive relationship with NPL which means if more shares are owned by the directors and sponsors of same family or group then the chances of loan default increases. We found similar results from the regression equation. From the result we can see there is a positive relationship between insider ownership and NPL which indicates that an increase in insider's ownership will lead to an increase in non-performing loans. The coefficient of correlation of insider's ownership is 0.0202. Therefore, if the insider's ownership increases by 1 percent then it would lead to a 0.0202 percent increase in the volume of non-performing loans. Here, the p-value is 0.0275 which is lower than significance level (0.1). Therefore, the result is significant and reliable. Because if the directors of the board have more power in their hands then they might take decisions which can be harmful for the banks such as disbursing loans to political parties, their family and friends. Sometimes, the board members borrow their bank's money and do not repay the loan as a result the number of default loan increases.

Hypothesis H_6 - government ownership has a positive relationship with NPL. We can see similar result from the regression. The regression result shows that government ownership has a coefficient of correlation of 0.050 with NPL which indicates a positive relationship with NPL. If the government ownership increases in the bank by 1 unit then the volume of non-performing loans of the bank will increase by 0.050 units as well. According to the equation, p-value is 0.079 which is lower than significance level (0.1). Therefore, the equation shows a significant and reliable result. If the government ownership increases then the banks might be forced to take decisions under political pressure which can be harmful for the banks such as disbursing large loans to politically motivated concerns even if they do not meet the criteria. After some years, they do not repay the installments as a result the loans turns into NPL.

According to Hypothesis H_7, foreign ownership has a negative relationship with NPL is supported by the regression result. According to the regression result, foreign ownership has a correlation coefficient of -0.0502 with NPL indicating a negative relationship with NPL. That means if the foreign ownership in a bank increases by 1 percent then it will result in a decrease in NPL by 0.0502 percent. The result showed a p-value of 0.070 which is lower than significance level (0.1) which indicates that the result is significant and reliable. Therefore, we can conclude that if the number of shares owned by foreign investors increase in a bank, then the volume of default loans will decrease. As the foreign owners have their own credit policy and they follow more strict criteria for borrower selection which reduces the chances of a loan turning into a bad debt.

Firm Characteristics: The equation shows a negative relationship between ROE and NPL, which indicates that if the ROE increases then the NPL (%) of the bank will decrease. According to the equation, the correlation coefficient of ROE is -0.155 which means that if the ROE increases by 1 then the NPL (%) will decrease by 0.155. The p- value is 0.0009 which is lower than 0.1 that means the result is significant and reliable. Furthermore, the relative growth of the bank has a positive relationship with NPL which indicates that an increase in relative growth of a bank result into an increase in NPL. The correlation coefficient is 0.0081 which indicates that if the relative growth increases by 1 unit then the NPL will also increase by 0.0081 units. The p-value is 0.028 which is lower than 0.1 that means that the test result shows significant results. The coefficient of correlation of the firm size is 0.720 with NPL. The firm size has a positive relationship with NPL. Therefore, 1 unit increase in the firm size will result in 0.720 unit increase in NPL. Here, the p-value 0.021 is lower than the significance level 0.10 that indicates the test result is significant and reliable.

A summary of the regression results is stated on Table 6.

Table 6 Summary of the Regression Results

Hypotheses		**Expected Sign**	**Actual Finding**
H_1	There is a positive relationship between board size and non-performing loans	(+)	(-) but not significant
H_2	There is a negative relationship between board independence and non-performing loans	(-)	(-) but not significant
H_3	There is a negative relationship between audit committee and non-performing loans	(-)	(-) significant
H_4	There is a negative relationship between CEO remuneration and non-performing loans	(-)	(-) significant
H_5	There is a positive relationship between insider ownership and non-performing loans	(+)	(+) significant
H_6	There is a positive relationship between govt. ownership and non-performing loans	(+)	(+) significant
H_7	There is a negative relationship between foreign ownership and non-performing loans	(-)	(-) significant

Chapter 6: Conclusion

6.1. Summary of Findings

This study investigates the nature of nonperforming loan and the impact of corporate governance mechanisms on restricting non performing loan in the Banking sector of Bangladesh. Some of the major findings are:

1. The growth of banking sector has declined to 8.51% from 9.95% in 2018.(Kabir, 2019)
2. The volume of non-performing loans is increasing at a higher rate over the last few years.
3. State-owned banks have the highest number of non-performing loans.
4. Poor corporate governance, lack of proper monitoring of the loans, unhealthy competition among banks is some of the major causes of non-performing loan.
5. Borrower's unwillingness to repay the loans, lack of business knowledge, poor business performance increases the chances of non-performing loans.
6. The size of the board and board independence has no significant impact on controlling the amount of non-performing loans in banks.
7. Effective audit committee control the number of default loans by rigorously monitoring the overall credit operation.
8. If the CEO's are provided with attractive compensation package, then they will be motivated to perform their roles more effectively and will be more concerned about reducing the number of default loans
9. The amount of non-performing loan increases with an increase in insider ownership and government ownership.
10. Foreign ownership reduces the volume of default loans by following more effective criteria for borrower selection and collecting the repayments.

6.2. Conclusion

Over the last few years, the amount of non-performing loans is growing at an increasing rate. It has shown an immense growth in last ten years which indicates a great threat in the development of financial sector. Banks need to take steps to control the non-performing loans. They should carefully monitor the overall credit operations and try to eliminate the bank related causes of non-performing loans such as poor governance, lack of proper monitoring. The study investigates the influence of different components of corporate governance in restricting the quantum of non-performing loans based on the data collected from five years data of eighteen listed commercial banks. The study uses multiple regression method to ascertain the relationship between variables. According to this study, corporate governance mechanism such as ownership pattern (insider ownership, Government ownership, and foreign ownership), remuneration of the CEO and effective audit committee can play an important role in controlling default loans in banks. However, the study finds that the number of board members and board independence does not have any significant effect on the volume of non-performing loans. As the board members does not have any significant impact in controlling the volume of default loans therefore the banks should use take pragmatic steps for evaluating each loan proposals, monitoring the loans in pre and post disbursement period and take effective legal actions against defaulters to reduce the number of default loans.

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Appendix

Bank Name	Year	Board Size	Independ ent directors	Audit commi ttee	Insider Owner-ship	Foreign owner-ship	Govt Owner-ship	CEO's Salary	ROE	Total Asset	Relative Growth	NPL
IFIC	2013	8	3	4	11.31	0.45	32.75	13.66	16.55	134.05	100.00	3.77
IFIC	2014	9	3	4	11.31	0.43	32.75	13.66	15.76	158.35	115.46	4.95
IFIC	2015	7	2	4	8.48	0.43	32.75	13.85	8.55	180.74	121.98	6.46
IFIC	2016	7	2	4	8.48	0.70	32.75	15.12	12.32	197.05	129.77	5.30
IFIC	2017	7	2	4	5.92	1.93	32.75	15.12	11.67	253.25	150.35	6.40
BRAC	2013	5	1	4	50.01	5.01	0.00	12.95	9.65	185.58	100.00	6.49
BRAC	2014	7	3	5	51.02	5.51	0.00	13.78	9.92	209.72	110.32	5.72
BRAC	2015	7	4	4	47.27	5.48	0.00	14.26	10.87	231.60	127.98	5.99
BRAC	2016	7	4	4	44.58	0.00	0.00	13.31	17.17	268.32	140.11	3.40
BRAC	2017	8	4	4	44.44	8.32	0.00	13.31	19.34	319.55	164.51	3.56
Dhaka	2013	16	2	4	45.48	0.00	0.00	12.34	16.45	145.01	100.00	4.15
Dhaka	2014	16	2	4	45.48	0.00	0.00	7.27	16.18	159.78	108.98	5.49
Dhaka	2015	16	2	4	39.08	0.13	0.00	10.42	11.10	177.21	105.02	4.66
Dhaka	2016	16	2	4	39.09	0.15	0.00	12.89	10.41	203.28	134.93	4.01
Dhaka	2017	16	2	4	39.62	0.13	0.00	14.10	10.16	230.83	145.89	5.98
Eastern	2013	10	2	5	31.47	0.00	0.00	16.16	13.66	158.16	100.00	3.60
Eastern	2014	10	2	5	31.57	0.00	0.00	17.98	10.57	173.44	107.67	4.36
Eastern	2015	10	2	5	31.57	0.00	0.00	19.24	11.02	191.09	105.98	3.27
Eastern	2016	10	2	5	31.56	0.00	0.00	20.41	13.04	212.38	122.21	2.69
Eastern	2017	10	2	5	35.56	0.00	0.00	21.55	11.10	256.30	134.25	2.50
southeast	2013	12	2	5	31.54	23.61	1.93	9.45	15.40	220.93	100.00	3.94
southeast	2014	12	2	5	31.54	23.61	1.93	9.45	15.63	236.61	119.95	3.64
southeast	2015	12	2	6	31.54	23.61	1.93	9.45	11.28	260.72	119.82	4.25
southeast	2016	10	2	5	31.54	23.61	1.93	11.98	9.18	291.80	132.71	4.89
southeast	2017	10	2	5	31.54	23.61	1.93	10.04	4.52	339.29	143.87	5.99
prime	2013	19	3	5	40.46	4.97	0.00	11.59	8.73	245.51	100.00	5.09
prime	2014	19	3	5	40.53	1.37	0.00	8.67	9.14	256.35	91.33	7.61
prime	2015	19	3	5	39.37	0.37	0.00	10.06	8.20	253.47	92.08	7.82
prime	2016	19	3	5	38.82	0.37	0.00	10.80	4.81	273.18	91.01	5.96
prime	2017	17	3	4	38.04	3.75	0.00	11.53	8.82	282.39	95.00	5.45
Merchantile	2013	13	2	5	39.62	0.00	0.00	11.35	15.66	145.10	100.00	4.77
Merchantile	2014	13	2	3	39.39	0.00	0.00	13.18	8.64	169.10	108.15	5.10
Merchantile	2015	13	2	5	36.79	0.00	0.00	14.14	9.01	183.78	107.69	4.95
Merchantile	2016	13	1	5	37.29	0.00	0.00	12.98	13.21	205.04	137.59	5.13
Merchantile	2017	10	2	4	37.46	8.58	0.00	16.14	17.11	261.39	162.30	3.79
MTB	2014	12	2	5	47.90	0.00	0.00	14.04	10.52	101.17	100.00	3.62
MTB	2014	12	2	5	44.48	0.00	0.00	15.00	14.20	116.30	123.19	2.67
MTB	2015	12	2	5	44.69	0.00	0.00	16.24	15.30	146.06	142.46	2.08
MTB	2016	12	2	4	37.18	0.00	0.00	17.32	14.91	165.37	162.70	4.36
MTB	2017	12	2	4	36.62	0.00	0.00	18.28	16.84	201.75	183.57	4.30
Premier	2013	12	2	5	43.92	3.07	0.00	9.80	9.84	88.96	100.00	5.73
Premier	2014	13	2	4	45.36	3.00	0.00	9.80	9.75	111.58	116.46	9.08
Premier	2015	12	2	4	45.85	3.00	0.00	12.15	9.02	131.70	123.39	6.64
Premier	2016	12	2	4	30.92	3.00	0.00	12.45	13.45	155.17	166.48	5.17

Premier	2017	12	2	4	30.22	3.00	0.00	13.35	14.97	182.54	200.39	4.69
Standard	2013	14	2	5	40.01	0.00	0.00	8.22	10.88	109.19	100.00	3.50
Standard	2014	14	2	5	42.97	0.00	0.00	8.22	12.27	119.93	122.11	3.55
Standard	2015	14	2	6	42.80	0.00	0.00	8.42	13.91	132.32	116.14	3.23
Standard	2016	14	2	5	42.64	0.00	0.00	7.68	8.66	152.79	120.17	3.64
Standard	2017	15	3	5	35.00	0.00	0.00	10.54	9.24	175.70	129.38	7.42
NCC	2013	14	2	5	29.64	0.22	0.00	8.88	8.59	124.63	100.00	5.51
NCC	2014	14	2	5	29.66	0.19	0.00	9.20	10.48	136.00	105.37	7.49
NCC	2015	14	2	5	29.31	0.18	0.00	9.00	8.83	147.61	110.13	7.07
NCC	2016	14	2	5	37.51	0.13	0.00	11.40	12.55	174.07	120.13	5.55
NCC	2017	14	2	5	36.98	0.00	0.00	9.41	10.73	203.65	139.59	5.79
AB	2013	13	3	5	13.91	0.68	0.57	11.43	6.35	209.75	100.00	3.37
AB	2014	12	2	6	13.91	2.19	0.57	13.14	7.54	248.16	126.25	3.71
AB	2015	12	2	6	13.93	1.84	0.57	12.90	6.18	286.94	109.61	3.06
AB	2016	11	2	5	36.58	1.63	0.57	13.51	5.64	314.84	108.85	5.19
AB	2017	11	2	3	36.47	1.97	0.57	9.94	0.13	314.56	102.23	7.15
Bank Asia	2013	14	4	3	47.71	0.32	0.00	13.00	9.14	165.07	100.00	5.60
Bank Asia	2014	15	4	4	46.49	0.32	0.00	14.16	12.12	184.09	115.33	5.31
Bank Asia	2015	15	6	5	46.47	0.32	0.00	16.73	13.64	225.67	123.55	4.26
Bank Asia	2016	12	4	3	45.32	0.39	0.00	15.69	8.72	254.87	129.64	5.41
Bank Asia	2017	11	4	3	51.66	0.65	0.00	13.90	10.09	290.95	145.27	4.38
DBBL	2013	8	1	3	61.30	25.70	0.00	9.57	15.83	185.54	100.00	3.90
DBBL	2014	7	2	3	61.30	25.70	0.00	10.76	15.20	215.99	109.22	4.40
DBBL	2015	7	2	3	61.30	25.70	0.00	10.76	18.03	244.06	122.92	3.70
DBBL	2016	7	2	3	61.30	25.70	0.00	10.65	10.04	264.80	125.46	4.40
DBBL	2017	7	2	3	61.30	25.70	0.00	10.00	12.60	311.91	145.78	3.90
City	2013	13	0	5	31.10	0.00	0.00	17.63	2.69	147.56	100.00	8.07
City	2014	14	1	5	31.10	0.00	0.00	15.05	7.65	176.93	123.23	5.88
City	2015	11	1	4	25.35	0.00	0.00	16.41	14.62	214.21	149.90	7.57
City	2016	13	2	4	27.41	0.00	0.00	16.94	20.16	254.75	169.63	6.00
City	2017	13	2	5	30.53	15.16	0.00	17.59	13.21	278.07	173.98	5.40
Jamuna	2013	19	4	5	58.12	0.10	0.00	10.11	12.87	115.12	100.00	7.59
Jamuna	2014	19	4	5	62.33	0.13	0.00	10.90	12.49	139.90	108.59	5.68
Jamuna	2015	18	3	5	62.12	0.07	0.00	10.90	10.44	143.43	123.12	6.69
Jamuna	2016	20	3	5	49.49	0.00	0.00	12.15	11.35	169.18	141.64	4.05
Jamuna	2017	20	3	5	50.18	0.00	0.00	15.08	13.46	197.67	153.45	4.02
pubali	2013	15	2	4	21.18	0.00	0.00	11.70	12.46	228.68	100.00	5.94
pubali	2014	14	2	5	28.88	0.00	0.00	11.50	14.08	248.67	106.65	6.25
pubali	2015	14	2	5	28.88	0.00	0.00	10.14	12.14	285.44	110.19	5.32
pubali	2016	14	2	5	28.88	0.00	0.00	10.50	5.71	320.61	110.61	5.38
pubali	2017	14	2	5	30.05	0.00	0.00	10.50	6.97	368.18	130.11	8.68
UCB	2013	18	3	4	36.41	0.00	0.81	11.32	14.97	225.62	100.00	4.03
UCB	2014	19	3	4	36.41	0.00	0.81	11.32	16.43	265.91	123.02	4.62
UCB	2015	19	3	5	36.95	0.00	0.81	11.32	15.65	293.74	125.91	5.23
UCB	2016	19	3	5	39.01	0.00	0.81	11.32	10.54	329.44	132.56	8.01
UCB	2017	19	3	5	37.02	0.00	0.81	8.03	9.78	365.21	144.14	7.38