“Analysis of Impact of Non-Performing Loan (NPL) on Banking Performance of AB Bank”

Internship Report On

" Analysis of Impact of Non-Performing Loan (NPL) on Banking Performance of AB Bank "

Submitted To:

Department of Marketing

Brac University

Supervised By:

Mr. SaifHossain

Assistant Professor

Brac Business School

Submitted By:

NuzhatZereen

I:D- 13364020

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Letter of Transmittal

30th April, 2019

Mr. SaifHossain

Department of Marketing

Brac University

Subject: Submission of Internship Report on “**Analysis of Impact of Non-Performing Loan (NPL) on Banking Performance of AB Bank**”

Dear Sir,

I’m glad to inform you that I’ve been completed my internship report and it’s a pleasure for me to submit the report on **“Analysis of Impact of Non-Performing Loan (NPL) on Banking Performance of AB Bank”**and this term paper is prepared for a partial requirement of MBA program.

I would like to convey my special thanks and gratitude to you for patronizing my effort & for giving me proper guidance and valuable advice. I have tried my best to cover all the relevant fields. I earnestly request you to call me if you think any further work should be done on the topic that you have chosen for me.

Sincerely Yours,

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Acknowledgement

First of all, I would like to express my deepest gratitude & indebtedness to the Merciful & Almighty Allah for giving me the patience and strength to prepare this internship report within the programmed time.

And then I would like to express my heartiest gratitude to my supervisor,"Mr. SaifHossain" for his co-operation and great contribution in preparing the report. To prepare this report, various kind of help has been taken by me from internet & other investment analysis related books and so I'm very grateful to those authors for their precious work.

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Executive Summary

I have presented a report explaining the impact of NPL on banking performance of AB Bank. To find out the effect NPL of banking industry on the financial performance of the bank, I have mainly used secondary data from published sources and have gathered financial data regarding NPL for last 5 years I have made statistical test along with ratio analysis to measure the impact on the financial performance of the bank and has shown that non-performing loans in these banks are on the rise and every year the rate of loan default is increasing at an alarming rate.

AB Bank is highly responsible for a bad NPL scenario in banking industry of the country as a significant portion of total NPL is incurred by these banks. In order to show the impact of NPL on banking performance of AB Bank, linear regression equation was used and secondary data for the periods from 2013 to 2017 was used. The independent variables of the study were Return on Asset, Return on Equity,Return on Investment, Net profit margin, Debt to income ratio, Debt to equity ratio, Debt to asset ratio, Total NPLs to Total Loans ratio .Previous studies have shown that there is an inverse relationship between NPL and performance of banks. Keeping that outcome in mind, the regression outcomes suggest that NPL significantly affects performance of SOBs in Bangladesh.

From this study of regression analysis it has been found that NPL has significant impact on Return on Asset, Net Profit Margin, Debt to Asset ratio, Total NPLs to Total Loan ratio It has also been found through regression analysis that NPL has less significant impact on Return on Equity,less impact on Net Profit Margin to NPL and less impact on Return on Investment.

Chapter 1: Organizational Overview of AB Bank

1.1 History:

AB Bank limited was introduced itself as the very first private sector bank in Bangladesh and was incorporated on 31st December, 1981. Arab Bangladesh Bank as formerly known started its effective operation from 12th April, 1982 with the mission to be the best performing bank of the country.

With an ambition to secure its place as the leading service provider, creating lasting value for its clientele, shareholder, and employees and particularly for the community it operates in, AB has formulated a golden heritage and an envious legacy that may not be imitated by many. Achieving plenty of milestones and incorporating numerous changes over the last 36 years, AB has always been authentic to its desire of being the technology driven innovative bank of Bangladesh.

AB has extensively widened its services over the last three decades in both home and abroad. The bank opened its very first branch at Karwan Bazar on 12th April 1982 and now has a successful footprint of 105 branches including one overseas branch in Mumbai, India and 270 plus ATMs spread across the country. It has associated 5 subsidiary companies including one Off-shore Banking Unit and Custodial services with its core banking activities. The Bank opened its Representative Office at Yangon, Myanmar for extending its foreign operations.

1.2 Product/Service Offerings

To excel this new era of technological triumph, AB Bank has successfully introduced several types of services like as

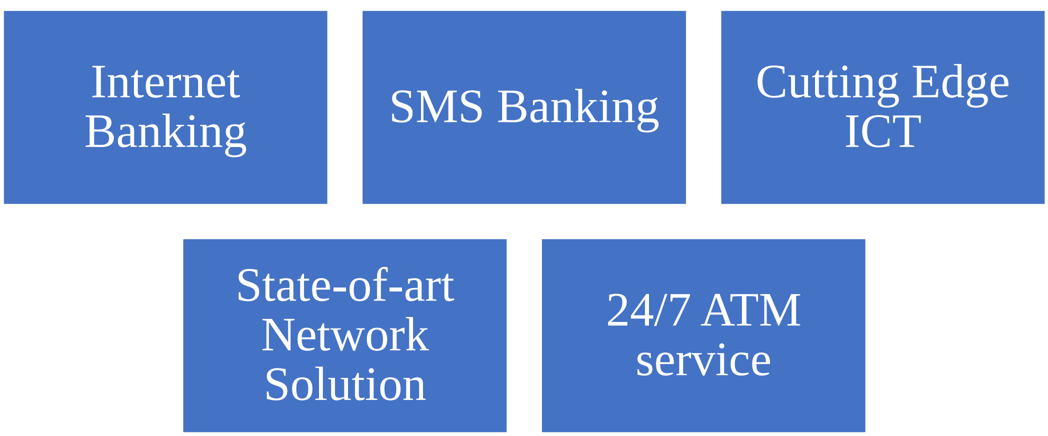


Figure 1 Products of AB Bank Limited

Through its wide slew of diversified product and services, now AB has affirmed its position to the top rated banks of the country. AB offers a wide range of depository and loan products to cater virtually for every customer segment. From Student Banking to Priority Banking AB approximately has all banking products in its repertoire.

The product gallery of AB Bank is rich in content and innovative products and services are introduced in the field of Small and Medium Enterprise (SME) credit, Women's Entrepreneur and the following are the main product gallery of AB Bank Limited:

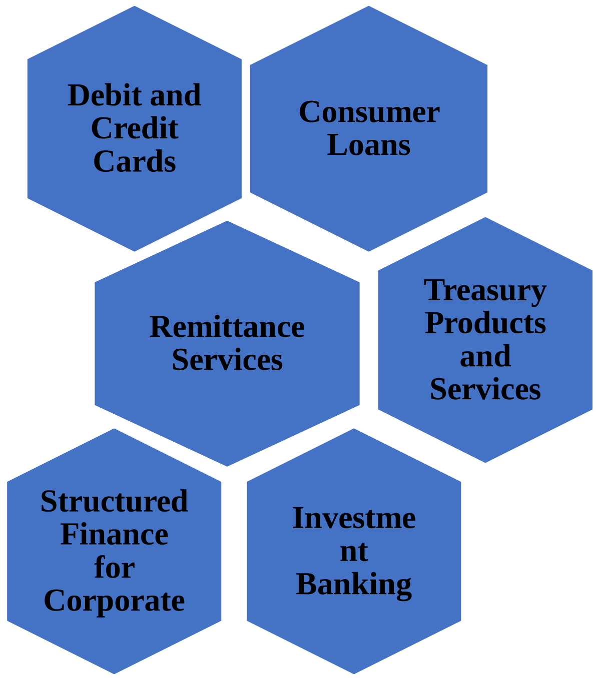


Figure 2 Product Gallery of AB Bank Limited

AB has High quality products and services and dedicated Relationship Managers who are committed to financial health management, preserve lifestyle and maintain priorities of the customers wherever life takes them.

1.3 Visions for the Future

- To be the trendsetter for innovative banking with excellence & perfection

1.4 Mission

- “To be the best performing bank in the country”

Chapter 2: Job Description

JOB DESCRIPTION

Employee Name: NuzhatZereen	Employee ID#:45081
Department: RBD	Job Grade and Portfolio: Senior Officer
Reports To (Name): Syed MizanurRahman	Designation: Executive Vice President

Job Overview:

Agent Banking Inward Foreign Remittance and Supporting Central Account Opening

Principal Duties and Responsibilities:

- Disbursement of Foreign Remittance of Agent Banking
- Supporting Agent Outlets to Expand the Business of Foreign Remittance
- Verification of Account Opening Forms
- Keying in EBA and EBS
- Photos and Signature Scanning and Tagging
- Processing Debit Card
- Input AML & KYC
- Any other duties as decided by the supervisor

Chapter 03: Description of the Report

3.1 Literature Review

A number of experiments were held by various investigators in trace out the impacts of Non-Performing Loan on banking performance. I have organized the conditions contemplated by those investigators and the outcomes of their experiment in that part of the report.

Haq and Kader (2015) investigated the causes of noticeable increase of non-performing loans (NPLs) in the banking industry in Bangladesh and its impact on the survivability of that industry. According to the study the large amount of non-performing loan can be attributed to some of the reasons:

- Diversities of funds
- Politically influential Board of Directors of Banks and their interference
- Political instability
- Corruption among bankers
- Aggressive banking due to enhanced competition
- Decline in real estate business
- Inefficient monitoring and poor coordination among related parties.
- Collaboration among giant defaulters and corrupted bankers

It was also observed that the giant defaulters and the corrupted bankers have escaped the jurisdiction of the law mainly by utilizing political shelter. These have created a negative impression even on good borrowers. The non-performing loans can be reduced only through the application of credit sanction and guidelines and strong debt recovery strategy. On the average the banking industry faces a great disaster in near future that may hamper its sustainability.

Study conducted by Alexiou and Sofoklis (2009) superintend the effects of bank-specific and macroeconomic determinants of banking performance, using an empirical framework that organizes the traditional Structure-Conduct- Performance (SCP) hypothesis. A panel data approach has been passed and effectively applied to six Greek banks. The evidence suggests that the bank specific determinants significantly affected bank performance. When the macroeconomic factors were considered more ambiguous picture emerged.

Study conducted by Petria et al (2013) assessed the main determinants of banks perfin EU27 over the period 2004-2011. They split the factors that control bank performance in two large groups: bank-specific (internal) factors and industry specific and macroeconomic (external) factors. They consider as proxy for banking performance the Return on Average Assets (ROAA) and the Return on Average Equity (ROAE). The experimental findings are consistent with the projected results. An interesting observation was that increased competition had a positive influence on banking performance in EU27. The following factors have influence on a bank's performance which includes both ROAA and ROAE:

- Credit and liquidity risk
- Efficiency of the management
- Diversification of the loan portfolio
- Market concentration/ competition
- Overall growth of the economy

The article conducted by Herrero, Gavila and Daniel Santabarbara in December 2007, tries to explain the low performance of the banks located in China for the period 1997 to 2004. As was expected banks which were better capitalized and more efficient turned out to be more profitable. State ownership and government intervention turned out to be another key factor behind low performance. Banks which were more market oriented proved to be attained better performance. These findings were not unforeseen because the banking system of China has been functioning as a conduit for transferring huge savings to meet public policy goals. The ongoing reforms seek to reduce government intervention in the banking system by lowering the share of government ownership, fully liberalizing the financial system and improving the overall corporate culture.

The paper conducted by Kabir Hassan, Abdel-Hameed studies how the performance of Islami Banks are affected by the overall financial environment in New Orleans. The study utilizes bank level data to examine the performance indicators of Islami Bank all over the world from 1994 to 2001. Bank's profitability and efficiency were predicted by using a variety of internal and external banking characteristics. Taking to account macroeconomic environment structure of the financial market and taxation the results indicated that there was a direct correlation between high capital, loan to asset ratios and higher profitability and so greater performance. The study also showed that taxes both implicit and explicit results into negative bank performance. While macro-economic conditions which are favorable impact the performance measures of banks positively. The study also shows strong positive correlation between profitability and overhead.

The article titled ‘The Reserve Bank of India’s Balance Sheet: Analytics and Dynamics of Evolution’ conducted by Jadhav, Partha and Dhritidyuti Bose attempts to add towards the growing research on the central bank balance sheets through analysis of different cases of Indian experience. The Post-Independence national macroeconomic experience is divided into three phases on the basis of alteration in the condiment of monetary policy in relation to the analytical commentary on the evolution of the Reserve Bank of India Balance Sheet. The regime changes were mirrored reasonably well by structural breaks in the time path of the Reserve Banks rate of surplus transferred to the government.

A study conducted by ShahbazHaneef, Tabassum and Muhammad Ramzan aims to investigate the impact of risk management on profitability and non-performing loans in Pakistan. The data used in the study were secondary in nature. Five banks were selected for data collection. The study revealed that the banking sector of Pakistan laced proper mechanism for risk management. The study concluded because of the lack of risk management non-performing loans are increasing and threatening the profitability of banks. The study suggests that the non-performing loans can be avoided by adopting the methods suggested by the State Bank of Pakistan.

The article named ‘Bank Profitability and GDP Growth in China’ by Yong Tan and ChristisFloros shows the effect of GDP growth on bank profitability from 2003 to 2009 in China. The persistence of profitability in Chinese Banking industry was determined through the use of one step system GMM estimator. The findings suggest that bank profitability is positively related to cost efficiency. Higher taxes paid by banks explained lower profitability. Negative relationship was identified between GDP growth and bank profitability. It was found that there was relatively small departure from a perfect competitive market structure in Chinese Banking industry. The study also showed that

- Non-performing loans significantly affected the Chinese Banks
- Chinese banks with higher capital faces lower profitability.

The paper exercised by Antonio Trujilo-Ponce analyses empirically the factors determining the profitability of Spanish Banks from 1990 to 2009. High bank performance during these years were found to be associated with large percentage of loans in total assets, large proportion of customer deposits, low ratio of doubtful assets and high efficiency. In addition higher capital ratios resulted into higher return for the banks, but only when Return on Assets was used in profitability measures. No evidence was found of either economies or diseconomies of scale or score in the Spanish Banking sector. Finally the differences in the performance of commercial and savings banks were revealed by the study.

3.2Objectives of the Report

- To find out the effect NPL of banking industry on the financial performance of the bank
- To find out the effect NPL on bank's its profitability and growth
- To find out the way of reducing NPL to improve the performance of the bank.

The main objective of the report is to present impact of Non-performing Loan on Banking Performance of AB Bank Limited.

3.3Methodology

To perform the objective of report I have collected secondary data from published sources. The secondary sources of data and information are:

3.3.1 Secondary Sources of Data

- Website of AB Bank Ltd
- Annual Report of AB Bank Ltd.
- Bangladesh Bank Circular (www.bangladesh-bank.org).

After gathering financial data regarding NPL for last 5 years I have made statistical test along with ratio analysis to measure the impact on the financial performance of the bank.

3.3.2 Data Definition

Dependent variable:

In the literature part described above, many researchers researches about the impacts of Non-Performing Loans on Profitability and Performance of the Bank. They assumed Return on Asset, Return on Equity, Return on Investment, Net profit margin, Debt to income ratio, Debt to equity ratio, Debt to asset ratio and Total NPLs to Total Loans ratio on their studies. Similarly I am considering those dependent variables in analyzing the impacts of Non-Performing Loan in my report.

Return on Asset

Return on Asset is known as an indicator of a company's profitability corresponding to its total assets. ROA provides a notion as to how efficient management is at using its assets to generate earnings.

Return on Equity

Return on Equity (ROE) is the quantity of net income returned as a percentage of shareholder’s equity. ROE demonstrates an organization’s profitability by showing how much profit a company generates with the money shareholders have spent.

Debt to asset ratio

Debt to Asset ratio indicates financial leverage. It demonstrates the percentage to total assets that were financed by creditors, liabilities, debt. It is measured by dividing the total liabilities by its total assets.

Total NPLs to Total Loans ratio

Total NPLs to Total Loans ratio is the ratio of the quantity of non-performing loans in a bank’s loan portfolio to the total amount of outstanding loans the banks hold. It is also named as NPL ratio.

Independent variable:

NPL which is an independent variable I used in my report.

3.3.3 Method Specification

Linear regression analysis model formula:

$$\boldsymbol{y} = \boldsymbol{a} + \boldsymbol{bx} + \boldsymbol{e}$$

$$\boldsymbol{ReturnOnAsset} = \boldsymbol{a} + \boldsymbol{b} * \boldsymbol{NPL} + \boldsymbol{e}$$

$$\boldsymbol{ReturnOnEquity} = \boldsymbol{a} + \boldsymbol{b} * \boldsymbol{NPL} + \boldsymbol{e}$$

$$\mathbf{ReturnonInvestment} = \boldsymbol{a} + \boldsymbol{b} * \boldsymbol{NPL} + \boldsymbol{e}$$

$$\mathbf{NetProfitMargin} = \boldsymbol{a} + \boldsymbol{b} * \boldsymbol{NPL} + \boldsymbol{e}$$

$$\mathbf{Debttoincome}\ \mathrm{R}\mathbf{atio} = \boldsymbol{a} + \boldsymbol{b} * \boldsymbol{NPL} + \boldsymbol{e}$$

$$\mathbf{Debtto}\ \mathrm{E}\mathbf{quity}\ \mathrm{R}\mathbf{atio} = \boldsymbol{a} + \boldsymbol{b} * \boldsymbol{NPL} + \boldsymbol{e}$$

$$\mathbf{Debtto}\ \mathrm{A}\mathbf{sset}\ \mathrm{R}\mathbf{atio} = \boldsymbol{a} + \boldsymbol{b} * \boldsymbol{NPL} + \boldsymbol{e}$$

3.4Limitation of the Report

- Lack of previous experience.
- Lack of adequate knowledge NPL
- Lack of Time

4.2 Ratio Analysis of Pentax Corporation

In order to understand the financial position of the company, in this part we have used various types of financial ratios based on our available data. These data has been extracted from the pro-forma balance sheet and income statement of the company from the year 2013 to 2017.

Liquidity Ratio

Liquidity ratios analyze the ability of a company to pay off its current liabilities. Liquidity analysis has been done to understand the company's liquidity position over the years.

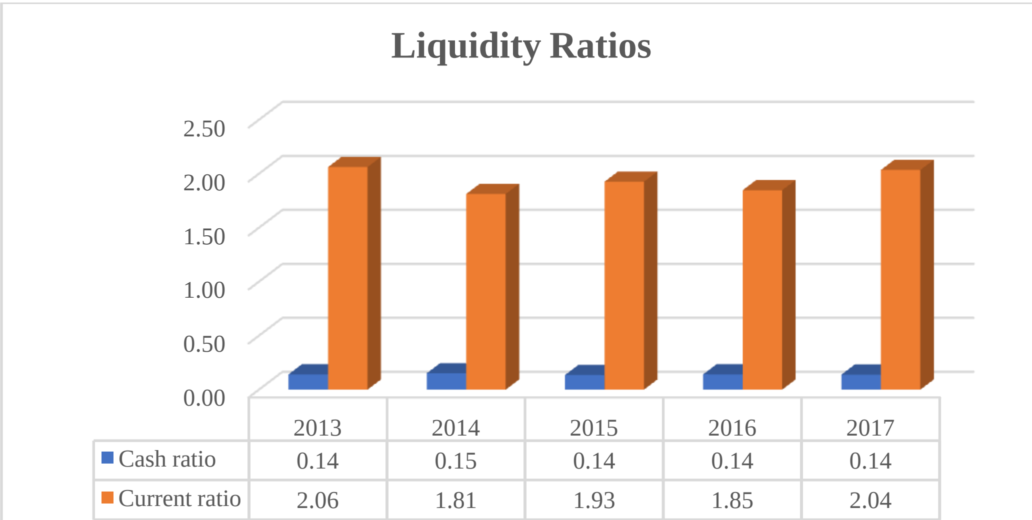
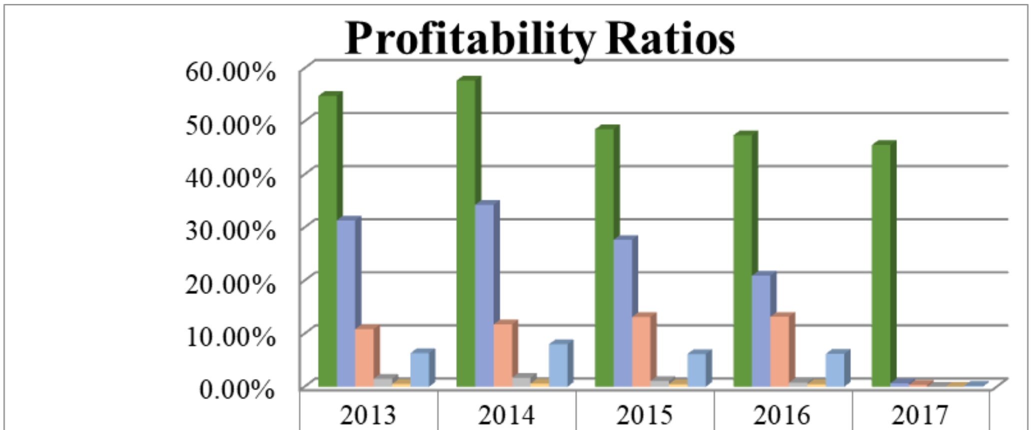


Figure: Liquidity position analysis of AB Bank

In 2013 current ratio was on increase but in 2014 a sudden fall was there which states that the company's ability to pay current liability has decreased over the year although again in 2016 and 2017 there was a slight increase in liquidity ratio .

Profitability Ratios

It assesses a business's ability to generate earnings as compared to company's expense and other relevant cost incurred during a specific period of time. The higher the profitability ratios, better the performance of the company.



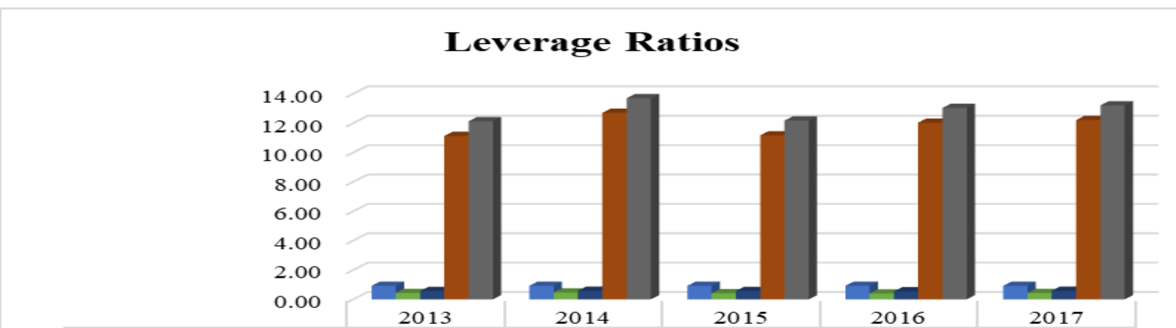
	2013	2014	2015	2016	2017
Gross Profit	54.78%	57.70%	48.51%	47.37%	45.55%
Operating Profit	31.35%	34.28%	27.67%	20.94%	0.66%
Net Profit Margin	10.85%	11.75%	13.14%	13.19%	0.37%
Basic Eamings	1.51%	1.71%	1.07%	0.76%	0.02%
ROA	0.52%	0.58%	0.51%	0.48%	0.01%
ROE	6.35%	8.01%	6.18%	6.20%	0.17%

Figure: Profitability analysis

Leverage Ratios

Leverage ratios measure the proportion of debt in the capital structure of a company and indicate financial viability of the company.

From the given data set, we can see that the debt to equity ratios was stable over the years the long term debt of the company has fluctuated over the years but at a very closer rate. Most significantly the company's long term debt ratio is moderate and interpreting it's moderate financial risk in next few years.



	2013	2014	2015	2016	2017
Debt Ratio	0.92	0.93	0.92	0.92	0.92
Long term debt ratio	0.44	0.47	0.41	0.41	0.43
Debt/ Total asset ratio	0.57	0.59	0.57	0.54	0.59
Debt-to-Equity	11.13	12.70	11.17	12.03	12.21
Equity Multiplier	12.13	13.70	12.17	13.03	13.21

Figure: Financial Risk analysis

Efficiency Ratios

Efficiency ratios indicate how efficientlyan company can use its resources to generate profit. From the efficiency ratios we can say that the company's ability to use its fixed assets is decreasing which was high in 2014. Total asset turnover is on an almost stable rate with non-remarkable fluctuations over the years.

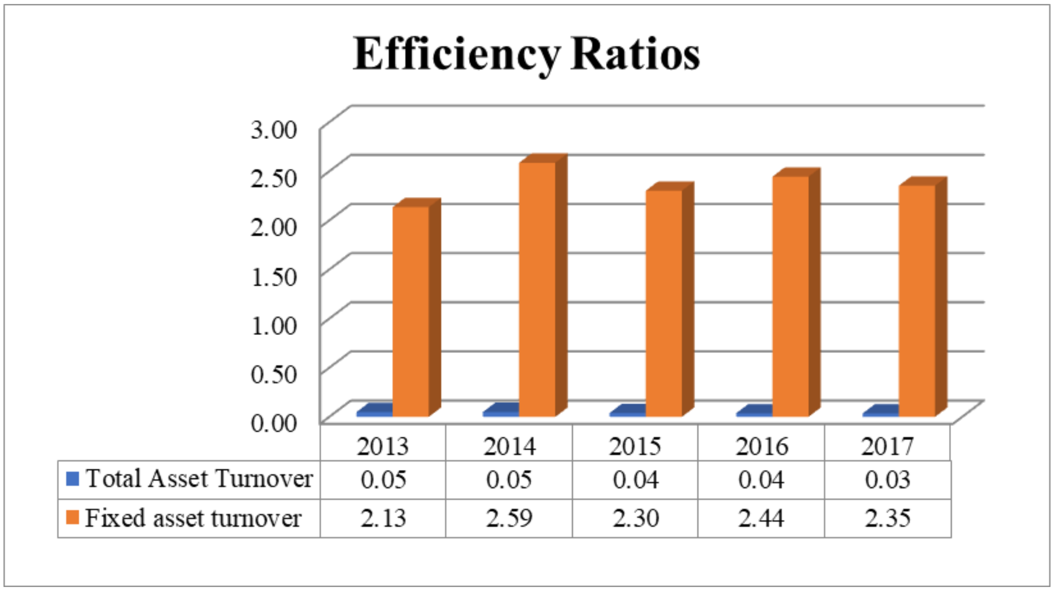


Figure: Efficiency analysis

4.2 DuPont Analysis of AB Bank

4.2.1 DuPont Analysis: Three Factors

DuPont analysis identifies the factors which causes changes in ROE and in what extent. The DuPont analysis (Three Factors) shows that the equity multiplier has the highest impact on ROE variations and then the net profit margin. Total asset turnover rate has the lowest impact on the ROE.

3 Factor DuPont Analysis	2013	2014	2015	2016	2017
Profit margin=Net income/Net sales	10.85%	11.75%	13.14%	13.19%	0.37%
Total asset turnover=Net sales/Total asset	4.8%	5.0%	3.9%	3.6%	3.5%
Financial leverage=Total asset/Shareholder Equity	12.129	13.697	12.172	13.034	13.210
ROE= Net income/ Shareholder Equity	**6.35%**	**8.01%**	**6.18%**	**6.20%**	**0.17%**

4.3.2 ROE Decomposition

ROE decomposition involves breaking down the five components of ROE, to analyses their impact on ROE. From the ROE Decomposition, it can be seen that ROE is mostly affected by equity multiplier. The Interest burden has also significant impact on ROE.

5 Factor Dupont Analysis	2013	2014	2015	2016	2017
Operating profit margin=EBIT/Net sales	31.35%	34.28%	27.67%	20.94%	0.66%
(Interest burden)=EBT/EBIT	57.2276%	59.4114%	57.0480%	44.1929%	1.4594%
(After tax retention rate)=NI/EBT	34.62%	34.28%	47.47%	62.99%	55.56%
Total asset turnover=Net sales/Total asset	4.83%	4.98%	3.87%	3.61%	3.49%
Equity multiplier=TA/TE	12.13	13.70	12.17	13.03	13.21
ROE	**3.64%**	**4.76%**	**3.53%**	**2.74%**	**0.00%**

Chapter 05: Result &Explanation

Linear Regression Analysis

In statistics, linear regression is a linear approach to modelling the relationship between a scalar response (or dependent variable) and one or more explanatory variables (or independent variables).

In linear regression, the relationships are modeled using linear predictor functions whose unknown model parameters are estimated from the data. Such models are called linear models.[3] Most commonly, the conditional mean of the response given the values of the explanatory variables (or predictors) is assumed to be an affine function of those values; less commonly, the conditional median or some other quantile is used. Like all forms of regression analysis, linear regression focuses on the conditional probability distribution of the response given the values of the predictors, rather than on the joint probability distribution of all of these variables, which is the domain of multivariate analysis.

Return on Asset

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.928242939
R Square	0.861634954
Adjusted R Square	0.815513272
Standard Error	0.000994519
Observations	5

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	1.85E-05	1.85E-05	18.68177654	0.022824445
Residual	3	2.97E-06	9.89E-07		
Total	4	2.14E-05			

	Coefficients	*andard Err*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.010463879	0.001514	6.912396	0.006205754	0.005646341	0.015281418	0.005646341	0.015281418
X Variable 1	-1.997E-12	4.62E-13	-4.32224	0.022824445	-3.46739E-12	-5.2662E-13	-3.46739E-12	-5.2662E-13

The regression analysis for impact of NPL on X variable 1which is ROA (0.022) is statistically significant at 5% level as the value of P is less than 5%. This indicates that increasing NPL negatively affects x variable 1 as we know there is an inverse relationship between NPL and ROA.

Return on Equity

SUMMARY OUTPUT

Regression Statistics	
Multiple F	0.878134
R Square	0.77112
Adjusted I	0.694827
Standard E	0.016645
Observati	5

ANOVA

	df	*SS*	*MS*	*F*	*ignificance F*
Regressio	1	0.002800164	0.0028	10.1073017	0.050125
Residual	3	0.000831131	0.000277		
Total	4	0.003631295			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.130817	0.025335248	5.163423	0.014090185	0.050189	0.211444656	0.050188524	0.211444656
X Variable	-2.5E-11	7.7327E-12	-3.1792	0.050124882	-4.9E-11	2.5116E-14	-4.91927E-11	2.5116E-14

The regression analysis for impact of NPL on X variable 2 which is ROE(0.05) is not statistically significant at 5% level as the value of P is less than 5%. This indicates that increasing NPL negatively affects X variable 2 as we know there is an inverse relationship between them.

Return on Investment

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.86548434
R Square	0.749063143
Adjusted R Square	0.665417524
Standard Error	0.075496111
Observations	5

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.051041613	0.051042	8.955199	0.05801366
Residual	3	0.017098988	0.0057		
Total	4	0.068140602			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.562507072	0.114914707	4.894996	0.016313	0.196797186	0.928216957	0.196797186	0.928216957
X Variable 1	-1.04959E-10	3.50737E-11	-2.99252	0.058014	-2.16579E-10	6.66128E-12	-2.16579E-10	6.66128E-12

The regression analysis for impact of NPL on X variable 3 which is return on investment (0.05) is statistically significant at 5% level as the value of P is less than 5%. This indicates that increasing NPL negatively affects the variable as we know there is an inverse relationship between them.

Net Profit Margin

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.923416
R Square	0.852698
Adjusted R Square	0.803597
Standard Error	0.02391
Observations	5

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.009928	0.009928	17.3663	0.02514691
Residual	3	0.001715	0.000572		
Total	4	0.011643			

	Coefficients	*andard Err*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.243564	0.036394	6.69232	0.006806	0.127740059	0.35938709	0.127740059	0.35938709
X Variable 1	-4.6E-11	1.11E-11	-4.16729	0.025147	-8.16419E-11	-1.09398E-11	-8.16419E-11	-1.09398E-11

The regression analysis for impact of NPL on Net Profit margin (0.025) is not statistically significant at 5% level as the value of P is less than 5%. This indicates that increasing NPL negatively affects Net Profit margin as we know there is an inverse relationship between NPL and Net Profit margin.

Debt to Income Ratio

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.950761
R Square	0.903947
Adjusted R Square	0.871929
Standard Error	1120.394
Observations	5

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	35440075.89	35440076	28.23276	0.013018477
Residual	3	3765846.205	1255282		
Total	4	39205922.09			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-7084.3	1705.382081	-4.15408	0.025359	-12511.58422	-1657.010419	-12511.5842	-1657.010419
X Variable 1	2.77E-06	5.20508E-07	5.313451	0.013018	1.10921E-06	4.42218E-06	1.1092E-06	4.42218E-06

The regression analysis for impact of NPL on debt to income ratio (0.013) is not statistically significant at 5% level as the value of P is less than 5%. This indicates that increasing NPL negatively affects debt to income ratio as we know there is an inverse relationship between them

Debt to Equity Ratio

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.553667308
R Square	0.306547488
Adjusted R Square	0.075396651
Standard Error	0.655803522
Observations	5

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.570360945	0.570361	1.326179441	0.332936099
Residual	3	1.290234776	0.430078		
Total	4	1.860595721			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	10.74966359	0.998216576	10.76887	0.001712539	7.572892934	13.92643424	7.572892934	13.92643424
X Variable 1	3.50858E-10	3.04671E-10	1.151599	0.332936099	-6.1874E-10	1.32046E-09	-6.1874E-10	1.32046E-09

The regression analysis for impact of NPL on debt to equity (0.332)) is statistically significant at 5% level as the value of P is less than 5%. This indicates that increasing NPL negatively affects debt to equity as we know there is an inverse relationship between them.

Debt to Asset Ratio

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.442044329
R Square	0.195403189
Adjusted R Square	-0.072795748
Standard Error	0.019586317
Observations	5

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.000279	0.000279	0.728576	0.456080184
Residual	3	0.001151	0.000384		
Total	4	0.00143			

	Coefficients	*andard Err*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.54860603	0.029813	18.40165	0.00035	0.453728166	0.643484	0.453728166	0.643483893
X Variable 1	7.76689E-12	9.1E-12	0.853566	0.45608	-2.11913E-11	3.67E-11	-2.11913E-11	3.6725E-11

The regression analysis for impact of NPL on Debt to asset ratio (0.456) is not statistically significant at 5% level as the value of P is less than 5%. This indicates that increasing NPL negatively affects Debt to asset Ratio as we know there is an inverse relationship between them.

Conclusion

AB Bank is highly responsible for a bad NPL scenario in banking industry of the country as a significant portion of total NPL is incurred by these banks. In order to show the impact of NPL on banking performance of AB Bank, linear regression equation was used.From this study of regression analysis it has been found that NPL has significant impact on Return on Asset, Net Profit Margin, Debt to Asset ratio, Total NPLs to Total Loan ratio It has also been found through regression analysis that NPL has less significant impact on Return on Equity, less impact on Net Profit Margin to NPL and less impact on Return on Investment, Debt to Income ratio and Debt to Equity ratio.

Based on the findings of the ratios it has been found that the NPL of AB bank is increasing gradually which indicates a negative effect on profitability. When NPL increases, the profit of the bank declines.

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