

**Impact of Non-Performing Loans on the Profitability of Shimanto Bank
PLC: An Analysis of Asset Quality Indicators**

Internship Organization

Shimanto Bank PLC

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Letter of Transmittal

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Subject: Submission of Project Report on “Impact of Non-Performing Loans on the Profitability of Shimanto Bank PLC: An Analysis of Asset Quality Indicators.”

Dear Ma’am,

It is with due respect that I would like to present my project report titled Impact of Non-Performing Loans on the Profitability of Shimanto Bank PLC: An Analysis of Asset Quality Indicators, which was prepared as a partial fulfillment of the requirements of the Bachelor of Business Administration (BBA) program at the University of Liberal Arts Bangladesh (ULAB). This report examines the effects of Non-Performing Loans on the profitability of Shimanto Bank PLC between 2020 and 2024 using the key asset quality indicators of NPL ratio. The research is founded on secondary data of audited annual reports and publications of Bangladesh Bank, which are analyzed using trend analysis, correlation and multiple regression methods.

I have made an effort to use my academic knowledge and analytical skills to write this report in good faith and in a systematic manner. I believe the report will meet your expectations, and I am eager to receive your valuable feedback and guidance.

Yours sincerely,

Habiba Rowshan Annie

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List of Abbreviations

Abbreviation	Definition
NPL	Non-Performing Loan
ROA	Return on Assets
ROE	Return on Equity
LLP	Loan Loss Provision
PCR	Provision Coverage Ratio
IV	Independent Variable
DV	Dependent Variable
ANOVA	Analysis of Variance

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Part- A

CHAPTER 1: Internship Preparation

1.1 Motivation to do Internship

Being an Accounting major student of the University of Liberal Arts Bangladesh, I had always. was of the opinion that theoretical knowledge on its own will failed to achieve a successful career in the. competitive business environment. The practical exposure is necessary to know about how business. real life functions of operations and collaboration of different departments to accomplish. This belief encouraged me to undertake an internship before completing my graduation. The main reason I chose to complete an internship was to acquire practical skills in a working professional setting, acquire necessary job competencies and become familiar with the corporate culture which prevails in Bangladesh. I wanted to bridge that gap between classroom learning and real-world application. Furthermore, I wanted to advance my communication skills, improve my problem-solving ability, and establish a professional network that may guide me in my career path.

At first, I did not even have a particular desire to work in the banking industry. opportunity to intern in Shimanto Bank PLC was offered by ULAB Career Services, I believed it could. be a good learning experience. The fact that Shimanto Bank is located within the Border. Guard Bangladesh (BGB) Welfare Trust assured me that the work environment will. be professional, disciplined, and structured. I thought that exposure in a banking would help me. not only would institution enhance my resume, but would also equip me with knowledge about the. financial industry, which is closely connected to my Accounting background.

I was assigned to the Human Resource Department, instead of the Accounting Department or the Accounting Department. Finance Department, I took this as a chance to venture into another aspect of business. I understood that Human Resources is a very important part of any organization, and there. are the points of intersection of HR and Accounting, especially payroll management, employee. HR accounting, cost analysis, and functions. I anticipated to be informed on how employee data is handled, how HR policies are executed, and how HR plays a role in the overall effectiveness of an In addition to technical skills, I wanted to acquire interpersonal skills, comprehend. workplace relationships, and be ready to the challenges I would encounter in my future job.

1.2 Internship Search Process

The process of identifying the appropriate internship was not that simple. I started my search about one and a half months prior to being hired at Shimanto Bank PLC. I discovered during this time. several websites and places to increase my likelihood of securing an appropriate internship.

I actively searched through various Facebook groups such “Internship Opportunities in Bangladesh” and “Internship in Bangladesh” where companies regularly post openings for fresh graduates and students. I also checked LinkedIn job postings and browsed through company websites to see if they had any internship programs available. Additionally, I kept myself updated with the ULAB Career Services Office, as they often share opportunities directly with students.

In my search, I applied to a number of organizations, and many of them did not respond, or the positions they provided were not in line with my expectations. There were jobs required skills in which I had not yet been developed, and others were in places which would have been hard to me to reach. It was not an easy task and at times discouraging. I remained persistent because I knew that I needed to have practical experience.

Lastly, I came across the internship opportunity at Shimanto Bank PLC through the “ULAB Career Services Office”. I had the feeling that this could be a meaningful opening as soon as I saw the opening. The image of Shimanto Bank as a regular commercial bank that functions under BGB made me believe in the credibility and professionalism of the organization. Without hesitation, I applied via the career services office and waited to hear back. After that day, I was called by the bank to an interview, which signified the start of my internship journey.

1.3 Interview Experience

I was called for a physical interview at the Head Office of Shimanto Bank PLC, which is situated. at Shimanto Shamvar (Level-7), Bir Uttam M. A. Rob Sarak, Dhanmondi, Dhaka. The interview was set in the morning, and I was punctual in attendance as I think punctuality indicates professionalism and seriousness on the opportunity.

When I walked into the office premises, I was impressed by the organized and professional atmosphere. The workplace appeared neat, tidy and well maintained. I was sent to a waiting room where I waited a few minutes before being called in. I attempted to relax and prepare myself mentally during this period for the questions I may be questioned.

Assistant Manager of Human Resource Mr. Mahbub Zaman Ashrafi conducted the interview. It was a one round interview making the process simple and less stressful relative to multi-round interviews I had experienced in other organizations. Mr. Ashrafi made a friendly and familiar atmosphere at the very start, which gave me more confidence. The interview started with the usual question, "Introduce Yourself". I took this opportunity to present my education, my interest to accounting and finance, and the reason for the interest in doing an internship. I emphasized my academic performance, my participation in extracurricular activities, and my desire to study in a professional environment. I ensured that my reply was brief but informative.

After this, he enquired of me my future aspirations and what I hoped to achieved from this internship. I described that I am interested in acquiring practical knowledge on how organizations. work, improve my professional abilities, and learn the dynamics of working in a corporate. I also said that I am willing to though I am an Accounting major, I am open to learning about Human Resources because it is an important activity in any organization. Then he asked me a couple of situational questions to know how I would cope with workplace. As an illustration, he questioned me how I would spend my time in case I was assigned several tasks. I replied by saying that I would be prioritizing tasks according to urgency and significance, talk to my supervisor when necessary, and make sure that I finish my perform effectively without sacrificing quality.

I liked the interview as it was more of a conversation rather than a technical one not an interrogation but a discussion, and I could feel that the HR team was sincere curious about my personality and work ethic as opposed to merely testing my knowledge. At the end of the interview, I was confident in the way I presented myself, I was not certain that the position would be ideal as I expected it to be because it was HR-related, not Accounting-focused. However, I was not negative and considered it as a chance to expand my skill base.

A day after the interview, Shimanto Bank PLC called me to inform me that I was chosen to be an intern. I was excited and quickly confirmed my acceptance. The HR department gave me the date of joining which was October 16th, and other relevant information and I started to prepare myself psychologically to this new stage of my professional life.

1.4 Brief About the Internship Organization

Shimanto Bank PLC is a scheduled commercial bank in Bangladesh which functions under the Border Guard Bangladesh (BGB) Welfare Trust. The bank was licensed as a bank by Bangladesh Bank On July 21, 2016, and was formally opened by the Honorable Prime Minister on September 1, 2016, with a paid-up capital of BDT 4,000 million. the formation of this bank was a strategic initiative aimed at offering financial services to the main beneficiaries, members of Border Guard Bangladesh, who also serve the general population with a broad range of banking products and services.

The slogan of Shimanto Bank is: Shimahin Astha, which means that the bank is dedicated to delivering services to customers with highest trust and integrity. In the years, Shimanto Bank has positioned itself as a trusted financial institution that is dedicated to providing quality banking, retail and corporate services. The bank has principles that guide its operations. customer satisfaction, transparency and professionalism.

Shimanto Bank provides a wide variety of financial services and products to satisfy the needs. requirements of various customer groups. These are retail banking services like savings. accounts, current accounts and fixed deposit schemes; SME (Small and Medium Enterprise). banking services to serve small businesses; corporate banking to serve large. organizations; and digital banking services like internet banking, mobile banking, and debit. The bank also offers other loan products such as home loans, car loans, and other loans. and education loans, to assist customers in their financial objectives.

As of July 2025, Shimanto Bank PLC has grown to 27 branches, 8 sub-branches, and 34 ATM booths in Bangladesh. This increased presence shows the presence of the bank. dedication to access underserved and remote parts of the country, especially in regions. where Border Guard Bangladesh officers are posted. Through the national leverage. existence of BGB, Shimanto Bank is expected to facilitate financial inclusion and make it available. banking to the populations that might have been excluded in the formal before.

The management team of the bank consists of highly qualified banking professionals with experienced staff in different departments, such as operations, credit, risk. management, IT, human resources, and compliance.

Their vision is to build a sound and healthy financial institution which will provide technology driven customer centric inclusive banking solutions and contribute to the growth of national economy with deep social commitment

CHAPTER 2: About The Internship

2.1 Job Position and Department Activities

I was appointed to work as an HR Intern at Shimanto Bank PLC and I was assigned to the Human. Head Office Resource Department. In my internship, I was provided with an opportunity to work in different HR functions and that is why I could get a full picture of the functioning of the department. I was involved in both traditional HR administrative work and work related to HR accounting, which was exactly what I studied in Accounting. The departments activities encompassed the entire employee lifecycle (recruitment to separation), maintenance of correct employee records, payroll and benefits, and facilitation of effective communication between the employees and management.

2.2 Work Environment

It is headquartered in Shimanto Shamvar (Level-7), Bir Uttam M. A. Rob Sarak, Dhanmondi, Dhaka, and is the Head Office of all key administrative and strategic activities of the bank. The workplace was also professional and highly disciplined and organized as required in a banking institution. The office area of the HR Department was in good condition with adequate lighting, air conditioning and modern office furnishings that provided a comfortable working environment. The general mood of the HR Department was a mixture of formal professionalism and helpful cooperation. There was a lot of discipline among the employees who kept time in the office, dress code, and organizational procedures. The culture of work focused on punctuality, attention to detail, and confidentiality, particularly due to the sensitivity of the information of employees. Certain team members were especially supportive and helpful, and they were always ready to help me whenever I had questions or needed some guidance. Nevertheless, the department was usually occupied with heavy workloads, and this occasionally curtailed the presence of senior personnel to provide comprehensive mentorship. Nevertheless, I enjoyed the experience of being exposed to an organized corporate setting where I could observe and practice professional workplace behavior.

2.3 Duties and Responsibilities as an Intern

As an intern at the Shimanto Bank PLC, I was tasked with key responsibilities in the HR Department. This includes:

2.3.1 Recruitment and Interview Coordination:

My very first day, I was assigned the task of job interviews. I made calls to candidates to be interviewed, followed up on their feedback, arranged interviews, prepared interview summaries, printed and stored them to keep records and ensured that the whole recruitment process was well documented.

2.3.2 Employee Onboarding:

I was taken through the employee joining process where I prepared new employee files, organize recruitment documentation, joining documents and other required paper work. I would thoroughly verify every document and key in the required information into the HR system.

2.3.3 Police Verification and Compliance:

I got to know how to make police verification challans of new employees, which is a compulsory requirement of employees of the banking sector in Bangladesh. This assignment made me understand the significance of compliance and background checks.

2.3.4 HR Accounting Tasks:

Among my major duties was to compute pocket allowances and travel allowances of employees according to the HR policy of Shimanto Bank. I also checked policy guidelines, checked employee claims and computed the right amounts to be paid out and made appropriate records to be audited. Also general ledger reconciliation was done by me.

2.3.5 Payroll Support:

I had a chance to perform specific data input and calculations related to salary processing. I was taught the calculation of salaries on the basis of basic pay, allowances, deductions, and tax implications.

2.3.6 Application Management:

My responsibilities included job posting, recording of applications, and entering data into the HR management system, where I was expected to handle a large number of applications and be accurate.

2.3.7 Certificate Verification Project:

I was also involved in checking employee education certificates and professional qualifications by calling the educational institutions and comparing the information given. This project has taught me the essence of due diligence in HR processes. These duties provided a great opportunity to gain practical experience in various areas of HR management, including recruitment and onboarding, HR accounting and compliance, which allowed me to have a holistic view of the role played by the HR Department in organizational success.

2.4 My Takeaway from this Position

2.4.1 Understanding the HR-Accounting Connection

The internship experience in Shimanto Bank PLC has been a great learning experience that has greatly helped me in personal and professional growth. The greatest lesson of this job is the understanding that HR and Accounting are closely interrelated, particularly in such aspects as payroll management, employee cost analysis, and benefits management. Being an Accounting major, I had the initial thought that I would learn little in the HR Department, but I was mistaken. The experience has opened my eyes and made me realize the role that each department in an organization plays in the overall success of the organization.

2.4.2 Technical Skills Development: Microsoft Excel

Mastery of Microsoft Excel is one of the most important technical competencies I gained during my internship. Prior to my experience at Shimanto Bank, I knew the fundamentals of Excel, but as an intern, I was able to master more sophisticated functions like VLOOKUP, data filtering, and data sorting, which are vital in HR data management and payroll calculations. This ability will certainly be helpful in my future life, no matter what sphere I will work in.

2.4.3 Soft Skills Development: Communication

Besides technical skills, I also gained some other significant soft skills that are vital in any working environment. I also developed my communication skills as I was required to communicate with candidates, employees and external agencies on a daily basis. It was either

calling candidates to interview them or contacting educational institutions to verify certificates, but I learned to be able to communicate clearly, professionally, and confidently.

2.4.4 Soft Skills Development: Time Management

Time management is another soft skill that I acquired. Being an HR worker means that I had to deal with a variety of tasks at the same time, and I needed to know how to prioritize my work and deliver on time without sacrificing quality. I had to handle candidate calls, interview summaries and filing them, as well as allowance calculations simultaneously. This experience taught me to be organized and efficient under pressure.

2.4.5 Soft Skills Development: Problem-Solving

My internship also equipped me with problem-solving skills. I also had some situations when I had to deal with difficulties, e.g. some discrepancies in the documentation of the employees or some mistakes in calculating allowances. Rather than panicking, I learnt to analyse the issue, consult my seniors and seek the most suitable solution. This critical and problem solving skill is something that I will bring with me in my career.

2.4.6 Understanding Workplace Professionalism

Moreover, I learned more about professionalism in the workplace. I also got to know the significance of keeping confidentiality, particularly when handling sensitive information about employees. I also got to know how to behave professionally, dress up and follow the organizational hierarchy. Such lessons might appear minor, yet they are essential to every person joining the corporate world.

2.4.7 Confidence Building

Above all, this internship made me gain confidence. I was not sure that I could cope with the duties of a corporate job before I joined Shimanto Bank. This self-esteem has given me the strength to work towards my career objectives with more vigor.

2.5 Relating Educational Learning to Internship Roles

2.5.1 Application of Financial Accounting

The best experience during my internship was using my Accounting knowledge at the University of Liberal Arts Bangladesh in the actual work. I used the concept of double-entry bookkeeping, general ledger in Financial Accounting when calculating salaries, allowances,

and deductions and learned the importance of proper financial record-keeping through the calculation of salaries as expenses and doing the ledger reconciliation.

2.5.2 Application of Managerial Accounting

Equally, my course in Managerial Accounting allowed me to compute pocket and travel allowances by examining employee claims, policy compliance, and correct reimbursements. It also helped me to learn how costs relating to employees are budgeted and distributed among departments.

2.5.3 Application of Cost Accounting

My Cost Accounting course enabled me to comprehend cost analysis of employees by identifying salaries, allowances, benefits, and training as significant organizational costs, and how the latter is used to make strategic choices regarding hiring, compensation and benefits.

2.5.4 Application of Human Resource Management

Besides accounting courses, my Human Resource Management course has had a direct relationship with my internship. I used principles of recruitment, selection, onboarding, and employee relations, such as job analysis, screening of candidates, and interviewing strategies, and developed an understanding of the extent to which onboarding is effective in retaining and satisfying employees.

2.5.5 Application of Business Communication

The course of Business Communication was essential in my internship because I was able to communicate professionally when creating job advertisements, communicating with candidates, and communicating with other departments.

2.5.6 Application of Organizational Behavior

My course in Organizational Behavior gave me knowledge about workplace dynamics, employee motivation, and workplace culture, which enabled me to comprehend how employees relate, leadership styles, and the significance of positive and supportive workplace.

CHAPTER 3: Self Reflection

3.1 Likes and Dislikes About Workplace

3.1.1 Positive Aspects of the Workplace

When considering my work experience during the internship at Shimanto Bank PLC, there were a number of things in the workplace that I truly enjoyed and, on the contrary, there were some issues that I believed could be done better. The HR team had built a supportive and collaborative environment, which was something that I liked the most about my workspace. My colleagues welcomed me on the very first day and always helped me when I had some questions and encountered difficulties.

3.1.2 Opportunities for Hands-On Learning

I also appreciated the practical learning experience because I was assigned real responsibility at the start or the first day and was assigned to interviews, communication with the candidates and fills allowances, and verify certificates, and it made my work count and motivating.

3.1.3 Professional Work Culture

The professional work culture at Shimanto Bank was something I liked. The professional office atmosphere as well as the punctuality and professionalism of its employees assisted me to know how vital it is to be disciplined and professional in a corporate environment.

3.1.4 Challenges and Areas for Improvement

A problem I encountered with my internship was the unstructured orientation program in the opening. Even though there were supportive colleagues, the HR department, structure of the organization, and processes were not formally introduced. Consequently, I was forced to learn on the job, and it made me feel unprepared at times. An adequate orientation would have helped me to grasp my role and settle down faster.

3.1.5 Communication Challenges

The next obstacle was the absence of clear communication regarding task expectations. Not all colleagues were very friendly and encouraging, and there were cases when tasks were given without clear instructions. This created misunderstanding and the need to clarify it several times. Better communication would have enhanced efficiency and minimized undue back-and-forth.

3.1.6 Performance Recognition Issues

Also, I felt that we had less culture to appreciate performance, and there were instances where they did not give a fair appreciation, and biasness was at play there.

3.1.7 Workload and Mentorship Limitations

Finally, the HR department used to be overworked and seniors did not have much time to mentor or guide me. Consequently, I was deprived of learning certain key points about the work. The internship process would have been more organized with a specific mentor system.

3.2 How Could I Do Better and How Could the Organization Utilize Me Better

3.2.1 Areas for Personal Improvement: Taking Initiative

In retrospect, I understand that there were aspects in which I could have done a better job during my internship. Taking more initiative was one of the areas. I was responsible in my assigned tasks, but I could have been more active in trying to get more responsibilities and new challenges rather than waiting to be ordered around.

3.2.2 Areas for Personal Improvement: Communication Skills

The other area I could have improved was my communication skills where there was some misunderstanding due to lack of clear communication. I also would have done better to prioritize my tasks and to divide them into smaller steps that would have enhanced efficiency and decreased stress.

3.2.3 Areas for Personal Improvement: Confidence in Sharing Ideas

Moreover, I might have felt more confident about expressing my ideas. Being an intern, I was afraid to express my views because I was not experienced enough but now I understand that new insights may be useful. I would have been more active in discussions and contributed my observations to make them better.

3.3 How the Organization Could Utilize Me Better: Diverse Learning Opportunities

My potential could have been better utilized by the organization, Shimanto Bank, through more varied learning opportunities. Even though I was exposed to recruitment and HR

administration, it would have been more beneficial to be exposed to other areas of HR to have a holistic view of how the department works.

3.3.1 Organizational Communication Issues

Their communication skills are another aspect that needs improvement. In some cases, work misunderstanding was as a result of lack of communication. They could have communicated better with interns and not interrupt them with our planned works all the time, which would have enabled me to plan my work more strategically.

3.3.2 Need for Formal Mentorship

The organization might also have appointed a formal mentor to guide me through my internship. Having a mentor who would have been fully committed would have offered a steady guidance, frequent feedback and a more definite developmental trajectory that would have been of benefit to both the intern and the organization.

3.4 Recommendations for Future Interns

3.4.1 Mentorship System

I would also recommend the institution of a mentorship program where every intern is assigned a senior employee as the main source of contact. The mentor would give frequent guidance, feedback, and support to assist interns in solving problems and learning the organizational culture. This would go a long way in improving the learning experience of the interns.

3.4.2 Regular Feedback Sessions

Secondly, I suggest that regular feedback sessions are introduced where supervisors can give constructive feedback, point out strengths, and areas of improvement. These meetings are to be conducted on a regular basis and must promote two-way communication, where the interns can express their experiences and difficulties. Frequent feedback would assist interns to monitor performance and improve.

3.4.3 Diverse Learning Opportunities Through Rotation

Finally, I would recommend providing a variety of learning experiences by rotating interns through various HR functions or shadowing professionals. This would provide interns with a holistic view of the HR operations and assist them in determining their interests and strengths. All these would make the internship program more organized, supportive, and enriching to the benefit of both the interns and the organization.

CHAPTER 4: Personal Development Plan

4.1 Personal Development Plan

My internship experience in Shimanto Bank PLC has greatly contributed to my career objectives and personal development strategy. With the end of my BBA in Accounting near, I have established specific short-term and long-term goals that will help me to develop professionally.

4.1.1 Short-Term Goals (1–2 Years)

My short-term objective is to complete my undergraduate degree successfully with good academic results. My goal after graduation is to find a full-time job in the accounting sector and become skilled in the key professional tools including advanced Excel, ERP systems, and Power BI. In addition to technical skills, I will develop my leadership, communication, and teamwork skills by participating actively, taking on extra responsibilities, and being mentored.

4.1.2 Long-Term Goals (3–5 Years)

I hope to be a qualified finance professional and a mid-level manager in a reputable institution in the long term. I would especially like to major in compensation and benefits management. I will also acquire a Master degree in Finance and Accounting to enhance my skills and employment opportunities. I also want to make a contribution to the society, mentoring young professionals and helping them develop their careers.

4.2 Skills to Be Developed in the Future

I believe in lifelong learning to meet my career objectives. I will enhance my technical expertise in data analysis, financial modeling, ERP systems, and analytical tools. Not the least, I would like to enhance my interpersonal skills, including leadership, effective communication, negotiation, time management, and cultural awareness to be able to work in diverse and professional settings. Finally, my personal development plan is directed at lifelong learning, improvement of skills, and professional advancement. The experience at Shimanto Bank PLC has given me a solid foundation and I am driven to create a successful, ethical and meaningful career.

Part - B

Impact of Non-Performing Loans on the Profitability of Shimanto Bank PLC: An Analysis of Asset Quality Indicators

Executive Summary

This paper analyzes the effect of Non-Performing Loans (NPLs) on the profitability of Shimanto Bank PLC in 2020-2024, based on three asset quality indicators, namely, NPL ratio, provision coverage ratio, and loan loss provision ratio. The study utilized a descriptive quantitative design based on secondary data in audited annual reports, which were analyzed through correlation analysis and multiple regression to test four hypotheses on the relationship between asset quality and Return on Assets (ROA). The results show that NPL ratio had grown between 0.07% and 1.29% but still lower than the industry average of 9.93% but provision coverage had fallen 87% of NPLs were left uncovered. Correlation analysis revealed that only the loan loss provision ratio had statistically significant negative correlation with ROA ($r = -0.92$, $p = 0.0248$), whereas regression analysis showed that all three indicators jointly accounted 99.99 percent of the ROA variance ($F = 25,893.09$, $p = 0.00457$). It finds that the loan loss provision ratio is the most significant asset quality measure that impacts profitability, and that an increase in provisioning by 1 percentage point lowers ROA by 0.96 percentage points, and that the recovery in the bank profitability was due to lower provisioning and not better asset quality, which raises sustainability issues. Recommendations include the restoration of provision coverage to at least 100 percent through a gradual increase in provisioning, proactive NPL resolution policies through an increase in recoveries and tightening of credit underwriting, regular stress testing using the regression model as a guide to scenario planning, and requiring that the regulator considers a minimum required ratio of coverage across the sector to prevent vulnerabilities to being under-provisioned. Further research should be expanded to panel data investigations of multiple banks across long periods of time to validate the primary role of provisioning effects and investigate the interaction with capital adequacy and efficiency.

Chapter 1: Introduction

1.1 Background of the Study

Loan management is very important in the financial performance of a bank since loans are the major source of income in commercial banks. Although the banking industry in Bangladesh has shown tremendous growth, the quality of loans has been a thorn in the flesh, with increasing Non-Performing Loans (NPLs) having a negative impact on profitability. Similar to other banks, Shimanto Bank PLC is under constant pressure due to NPLs, and proper management of credit risk is the key to maintaining financial performance. Bangladesh banking sector is at the center of financial stability, investment, and economic growth. Having 61 scheduled banks under the supervision of Bangladesh Bank as of 2024, the industry has grown in terms of its services, competitiveness, and technological development (Bangladesh Bank, 2024). In spite of this development, the industry still struggles with the long-standing issues, one of which is the management of Non-Performing Loans (NPLs). The presence of NPLs poses a risk to liquidity, profitability, and financial resilience; hence, it is crucial to learn about their implications, especially to newer banks that have to deal with competitive environments.

1.1.1 Understanding Non-Performing Loans

Non-Performing Loan refers to a loan in which the borrower has failed to pay scheduled interest or principal payments of 90 days or more (Bangladesh Bank, 2012). Bangladesh Bank classifies NPLs into three types based on the overdue payment period: Sub-standard (90-270 days overdue), Doubtful (270-365 days overdue), and Bad/Loss (more than 365 days overdue). The provisioning of each category is 20 percent of Sub-standard, 50 percent of Doubtful and 100 percent of Bad/Loss loans. These demands force banks to hold some of their earnings as provisions to absorb the expected losses. This process ensures financial stability but at the same time reduces profit, as the money used in provisions cannot be borrowed or invested.

Moreover, NPLs impose a liability on banks in terms of lost interest, reduced capital position and deterioration of the overall quality of assets. The more loans that fail to perform, the more the bank will be forced to reorganize the operations and minimize risk-taking activities, which will eventually impact the growth.

1.1.2 Impact of NPL on Bank Profitability

The impact of Non-Performing Loans on profitability is interrelated in a number of ways. Banks are affected when loans stop to generate income, immediately the interest revenue is reduced. Also, the required provisioning requirement lowers net profit since such amounts are charged as expenses. In the long run, high NPLs also reduce the lending capacity of a bank by undermining its capital adequacy, which restricts the ability to undertake new business and competitiveness. Prior empirical research has repeatedly shown that NPL levels are negatively correlated with profitability. An example is a study by Islam, F. T. (2018) which revealed that NPL ratio was negatively correlated with Return on Assets (ROA) in Bangladeshi commercial banks; a 1% increase in NPL ratio decreased ROA by about 0.15%. On the same note, Akter and Roy (2017) found that the growth of NPLs had a significant negative impact on ROA, Return on Equity (ROE), and net profit margins of banks in the Dhaka Stock Exchange. The evidence is echoed internationally, as Louzis et al. (2012) established that high NPLs limit future growth opportunities by limiting the capacity of banks to lend and Fofack (2005) established that high NPLs banks tend to use up to 40 percent of operating income in provisioning, leaving little room to be profitable.

1.1.3 NPL Situation in Bangladesh and Shimanto Bank Context

Bangladesh has been grappling with high NPL ratios over a decade. According to the Financial Stability Report (Bangladesh Bank, 2023), the sector-wide NPL ratio was 9.93% in June 2023, nearly twice the internationally accepted threshold of 5%. The highest levels are among state-owned commercial banks, though the private commercial banks are also affected to a large extent.

Fourth-generation commercial banks that are privately owned like Shimanto Bank PLC are challenged further in this environment. Shimanto Bank is a relatively new bank, and it is still developing its customer base, increasing its loan portfolio, and enhancing its credit risk assessment framework. Research has established that newer private banks are more likely to have higher NPL ratios than older banks because of aggressive lending, insufficient credit history, and pressure to expand rapidly due to competition (Hossain and Ahamed, 2021). Thus, it is timely and significant to analyze the NPL behavior of Shimanto Bank and its impact on profitability, considering the economic shocks that arose during the COVID-19 pandemic and the following years of recovery.

1.2 Scope of the Study

This paper will solely concentrate on Shimanto Bank PLC and analyze how its asset quality indicators, which include the NPL ratio, the provision coverage ratio, and the loan loss provision ratio, affect its profitability between 2019 and 2024. The study is restricted to secondary data gathered through audited financial statements, annual reports, and publications of Bangladesh Bank. It is not an analysis of Shimanto Bank versus other banks and does not involve primary data of employees or customers. Rather, the analysis gives a detailed analysis of the change in the quality of the assets of the bank during the chosen period and the impact of the changes on the profitability. The study will provide a precise and in-depth evaluation of the financial performance and asset quality dynamics of one bank by reducing the scope to a single bank.

1.3 Research Problem

Non-Performing Loans pose a major risk to the financial performance of Shimanto Bank, especially being a new-generation bank in a competitive market. Rising NPLs decline interest income, increase the provisioning burden, and decrease capital adequacy- all of which contribute to profitability. Despite the fact that NPL-related issues are widely known in the overall banking industry, there is a lack of studies that specifically investigate the impact of various asset quality metrics on the profitability of newer banks such as Shimanto Bank.

Furthermore, although NPLs may affect profitability in a variety of ways, it is still unclear which specific indicator of asset quality is the most significant one in the bottom line of Shimanto Bank. In the absence of such transparency, the management of the bank might not be able to prioritize corrective measures, allocate resources efficiently, or adopt specific risk-management policies. This paper aims to fill those gaps by examining the recent financial results of the bank and determining which elements of NPL management are the most critical to profitability.

1.4 Research Objectives

This study will have the following objectives:

- i. To examine how asset quality indicators (NPL ratio, provision coverage ratio, and loan loss provision ratio) affect the profitability of Shimanto Bank PLC in the period 2020-2024.

- ii. To identify which asset quality indicator has the most significant influence on the profitability of Shimanto Bank PLC.

1.5 Research Questions

Two key research questions are used to direct this study and answer the main issues related to NPL and profitability (ROA) at Shimanto Bank:

RQ1: How do asset quality indicators (NPL ratio, provision coverage ratio, and loan loss provision ratio) affect the profitability (ROA) of Shimanto Bank PLC ?

RQ2: Which asset quality indicator has the strongest influence on the profitability of Shimanto Bank PLC?

1.6 Significance of the Study

This research is significant as it helps in describing the impact of Non-Performing Loans on the profitability of Shimanto Bank PLC. Knowing this relationship, the bank will be able to manage its loans more efficiently and minimize risks in the future. In the case of the banking sector, the research contributes positively to the understanding of the impact of NPLs on the performance of a developing bank in Bangladesh. Academically, it is useful to students and researchers who may wish to know more about NPLs and bank profitability. Lastly, as a researcher, the study assists me to acquire practical insights into how credit risk, loan defaults, and financial performance work inside a commercial bank.

Chapter 2: Literature Review

2.1 Bank Profitability and Asset Quality Framework

Asset quality, especially non-performing loans (NPLs) and credit risk management, is the primary driver of bank profitability (Jathurika, 2019). The most important indicator of profitability in banking studies is Return on Assets (ROA), which shows the efficiency of using assets. Banking regulations such as Bangladesh Bank guidelines consider ROA above 1-1.5% as healthy performance (Sari et al., 2025). According to Kasmir (2016), ROA combines the effect of credit risk, funding structure, and operational efficiency, which is why it is a key indicator of the health of the bank and the confidence of its stakeholders.

2.2 Non-Performing Loans: Definition, Measurement, and Impact

Non-performing loans (NPLs) are borrowings in which the borrower does not make scheduled payments of principal or interest to the lender in more than 90 days (Ahmad and Ariff, 2007). The standard credit risk and asset quality indicator is the NPL ratio (total NPLs/total loans outstanding) (Gizaw et al., 2015). Less NPL ratios are an indicator of good credit screening; higher ratios are a sign of poor quality of the portfolio and weaknesses in risk management.

Empirical evidence indicates that increased NPL ratios tend to decrease profitability. Jathurika (2019) identifies substantial adverse impacts on ROA/ROE among Sri Lankan banks. The same findings are observed in Nigerian (Abiola and Olausi, 2014) and Ethiopian (Gizaw et al., 2015) research, in which NPLs reduce net interest income and increase credit costs. Nevertheless, Sari et al. (2025) report the non-significant NPL effects on ROA at PT Bank Artha Graha Internasional, implying that efficiency or capital buffers may moderate the relationship. In general, literature demonstrates that NPL and profitability have a negative but context-dependent relationship that needs empirical verification.

2.3 Loan Loss Provisioning: Purpose, Policy, and Profitability Trade-offs

Loan loss provisioning (LLP) relates asset quality to profitability by setting up reserves using current earnings to offset anticipated loan losses, which serves as a credit risk buffer (Ozili & Outa, 2017). The study by Islam, F. T. (2018) of 56 Bangladeshi banks (2009-2017) reports that both NPLs and LLPs are negatively correlated with profitability, the coefficient of LLPs on ROA being negative and statistically significant and economically large. Increased provisioning decreases short-term profits even though it enhances solvency.

South Asian supervisory reports caution that under-provisioning inflates current ROA but subject banks to future write-offs of unprovided NPLs (Central Bank of Sri Lanka, 2017). This two-sided nature of the role of loan loss provision as prudential protection and current income drain necessitates the inclusion of the loan loss provision ratio in profitability research alongside NPL ratio.

2.4 Provision Coverage Ratio and Regulatory Adequacy

Provision coverage ratio is the ratio of NPLs that have been covered by accumulated provisions (total provisions/total NPLs), where the values are below 100 percent indicating weak buffering against possible losses Islam, F. T. (2018). Recent market research presents coverage deterioration in stable/increasing profitability is often under-provisioning, not actual asset quality improvement (Central Bank of Sri Lanka, 2017).

Single-measure focus should therefore be replaced by joint analysis of NPL ratio, LLP ratio and provision coverage ratio to have a complete picture of the asset quality-profitability linkages.

2.5 Asset Quality–Profitability Relationships: Empirical Evidence

The relationships between asset quality and profitability have been widely tested within banking systems. Many studies indicate that NPL has a significant negative effect: on Nigerian banks, Abiola and Olausi (2014) find that higher NPL ratios lower ROA/ROE; on Ethiopian banks, Gizaw et al. (2015) report the same; and on Sri Lankan banks, Jathurika (2019) does the same. Other studies find LLP to be the main channel of transmission: according to Islam, F. T. (2018) in Bangladeshi bank regressions, LLP coefficients are strongly negative and significant and direct NPL effects become weaker, suggesting that provisioning decisions are the key to the profitability effect of credit risk. Nevertheless, Sari et al. (2025) indicate that NPL effects on ROA are insignificant at PT Bank Artha Graha Internasional after the inclusion of controls, which implies that capital adequacy, efficiency, and strategy can conceal NPL effects in particular settings. All in all, profitability is driven mainly by the quality of assets, yet NPLs, LLPs, and coverage roles differ according to the bank and regulatory environment.

2.6 Correlation and Multiple Regression as Standard Methodology

Banking studies formalizes the relationship between asset quality and profitability with explicit hypothesis that is tested using correlation analysis and regression (Gujarati, 2009; Hair et al.,

2010). Normal hypotheses are negative NPL-ROA, negative LLP-profitability, and strong joint asset quality effects.

Key negative correlations between NPL and ROA/ROE are initially summarized using Pearson correlation matrices: Jathurika (2019) records significant negative NPL correlations with ROA; comparatively, negative NPL/LLP or capital/efficiency restricts profitability, and positive capital/efficiency positive ROA (Abiola and Olausi, 2014; Islam, F. T. (2018). Correlations do not imply causation, but they support hypotheses.

ROA is then modeled using multiple regression as a function of NPL ratio, LLP ratio, provision coverage, leverage, and efficiency ratios, estimating the marginal effects using t-tests and overall fit using F-statistics (Hair et al., 2010). Islam, F. T. (2018). discover that LLP is still very negative and significant to Bangladeshi banks following NPL controls, which supports its central asset quality-profitability role.

2.7 Hypothesis Development

The literature reviewed offers a good basis upon which four hypotheses can be developed concerning Shimanto Bank PLC. Empirical research studies have consistently revealed that increased NPL ratios undermine the bank profitability by lowering interest revenues and raising the costs of credit risk (Abiola and Olausi, 2014; Gizaw et al., 2015). Jathurika (2019) clearly tests and confirms that NPL ratio negatively impacts ROA and ROE of the Sri Lankan listed commercial banks, which supports hypotheses that non-performing loans have a negative impact on financial performance. The same conclusions can be drawn based on the studies of Nigerian and Ethiopian banking, in which NPL growth is correlated with poorer profitability metrics (Abiola and Olausi, 2014; Gizaw et al., 2015). Nevertheless, Sari et al. (2025) also note that NPL has negligible impacts on ROA in PT Bank Artha Graha Internasional in Indonesia, suggesting that the association may depend on the institutional setting. Based on this inconclusive yet mostly negative evidence, the initial hypothesis is the following:

H1: There is a significant relationship between NPL ratio and ROA of Shimanto Bank PLC.

Provision coverage ratio, which is less commonly modeled as a direct predictor, is related with regulatory adequacy and loss buffering. Sector-level studies of Bangladeshi banks indicate times when required provisions were higher than actual provisions, which produced coverage gaps that were associated with moderate profitability and indicated under-provisioning helped to sustain short-term ROA these concerns are expressed in the Sri Lankan supervisory reports,

which show that coverage is decreasing despite stable profits, which suggests that the company may be at risk of insolvency (Central Bank of Sri Lanka, 2017). These results indicate that provision coverage affects risk perception and earnings, but the sign can vary based on the prudence versus earnings management motives Islam, F. T. (2018). The second hypothesis, therefore, is non-directional:

H2: There is a significant relationship between provision coverage ratio and ROA of Shimanto Bank PLC.

Loan loss provision ratio shows a strong negative relationship with profitability in research. Examining 56 Bangladeshi commercial banks during 2009-2017, Islam, F. T. (2018). report that loan loss provisions have a statistically significant negative coefficient in profitability regressions, which supports the hypothesis that increased LLPs lower ROA. This is uniform evidence in favor of a directional hypothesis:

H3: There is a significant negative relationship between loan loss provision ratio and ROA of Shimanto Bank PLC.

Lastly, F-tests in multiple regression are often used in banking studies to identify the joint impacts of asset quality variables (Gujarati, 2009; Hair et al., 2010). NPL and provisioning indicators explain the profitability of Bangladeshi banks jointly, whereas research on Indonesian and Sri Lankan banks test the same joint hypotheses (Sari et al., 2025; Jathurika, 2019).

H4: NPL ratio, provision coverage ratio and loan loss provision ratio jointly have a statistically significant effect on ROA of Shimanto Bank PLC.

2.8 Research Gap

The current literature demonstrates that higher NPL and LLP ratios tend to be linked with decreased profitability, but the magnitude of the effects differs depending on the context (Abiola and Olausi, 2014; Gizaw et al., 2015; Jathurika, 2019). Negative NPL effects are strong in Sri Lankan and African studies, whereas NPL effects on ROA are insignificant in Sari et al. (2025) at PT Bank Artha Graha Internasional.

The sector-wide or multi-bank panel design of Bangladesh research hides the dynamics of individual banks, especially in crisis-recovery periods such as 2020-2024 (Jathurika, 2019). Very few studies test these relationships on a single Bangladeshi commercial bank on clear hypotheses using correlation matrices and multiple regression.

This paper fills these gaps by examining Shimanto Bank PLC (2020-2024), which jointly models the three indicators of asset quality. It compares H1-H4 using Pearson correlation to identify pairwise effects and multiple regression to identify individual/joint effects on ROA using established methods (Sari et al., 2025; Jathurika, 2019). Accordingly, it offers bank-level, post-COVID evidence on the relationship between asset quality and profitability in Bangladesh, which fills sector-level, single-indicator studies.

2.9 Methodology

2.9.1 Research Type

The proposed study is a descriptive quantitative research type because it uses numerical financial data to summarize and analyze trends in asset quality and their correlation with profitability at Shimanto Bank PLC during the 2020-2024 period.

2.9.2 Research Design

The study is a quantitative research design, which focuses on statistical analysis of the main financial ratios using structured data processing. It uses data visualization methods, including tables, bar charts, correlation matrix and regression results, to clearly demonstrate patterns and relationship among the variables.

2.9.3 Population and Sampling

The sample of this study is the entire annual financial statements of Shimanto Bank PLC between the years 2020 - 2024. The purposive sampling is used, where the whole time series dataset is chosen to cover the post-COVID recovery phase in a comprehensive way, and random selection is not necessary because of a narrow scope of the focus (one bank).

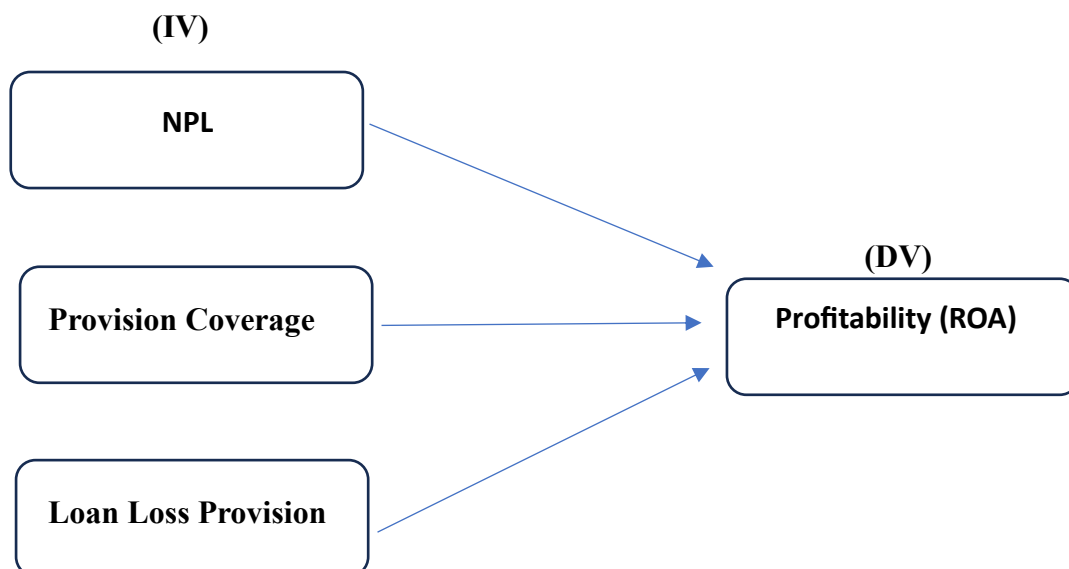
2.9.4 Data Collection

The sources of data collection will be limited to secondary sources such as audited annual reports of Shimanto Bank PLC, official publications of the Bangladesh Bank, and filings of Dhaka Stock Exchange. Based on these sources, key variables are taken: total loans, non-

performing loans (NPLs), loan loss provisions (LLPs), accumulated provisions, total assets, and net income. Standard formulas are then used to compute the ratios manually.

2.9.5 Data Analysis

The analysis of the data starts with and trend analysis displayed in graph charts to give an overall picture of the behavior of variables. A Pearson correlation table is obtained to evaluate the relationship between the NPL ratio, LLP ratio, PCR, and ROA on a pair-wise basis. The core analysis includes multiple linear regression, and t-tests are used to test the significance of each coefficient, and the F-test is used to test the significance of the model as a whole at $p = 0.05$. All calculations and illustrations are made in Microsoft Excel.



Chapter 3: Analysis, Findings & Discussion

3.1 Overview

This chapter presents the analysis, findings and discussion of the study conducted to examine the effect of Non-Performing Loans on the profitability of Shimanto Bank PLC in the period 2020-2024. The analysis uses descriptive statistics, correlation analysis, and multiple regression analysis to test the hypotheses proposed and answer the research objectives. The annual reports of Shimanto Bank PLC were analyzed using Microsoft Excel and data was extracted. The results are empirical evidence on the most important asset quality indicator in determining the bank profitability and offer practical implications in management decision-making and strategic planning.

3.2 Analytical part

The mathematical analysis section evaluates Shimanto Bank's NPL performance on the ROA of Shimanto Bank PLC during 2019-2024. These indicators working as performance metrics will analyze trends in Shumanto Bank's asset quality indicators- NPL ratio, provision coverage ratio, and loan loss provision and their impact on ROA ratio to understand how the bank performed on these critical practices, provides a clear picture of the bank's financial health, efficiency, and future stability. The ratio include:

- NPL Ratio
- Provision Coverage Ratio
- Loan Loss Provision Ratio
- ROA Ratio

To calculate the above ratios a table of data is provide (BDT Millions)

Year	Total Loans	Classified Loans (NPL)	Total Provision Kept against Classified Loans	Loan Loss Expense	Net Profit	Total Assets	Total proviosion
2020	8,331,651,298	5,913,858	2,306,534	14,915,300	201,037,353	18,559,064,251	14,920,000
2021	10,047,395,543	177,711,814	83,915,029	114,604,717	140,096,727	18,827,814,878	114,600,000
2022	12,531,846,451	152,653,471	75,247,860	44,292,835	230,569,188	22,545,304,523	44,290,000
2023	16,014,791,094	177,711,814	92,656,216	41,105,204	246,801,322	25,215,444,150	45,620,000
2024	20,341,282,630	261,942,045	89,277,220	16,300,522	397,358,623	33,012,699,495	34,790,000

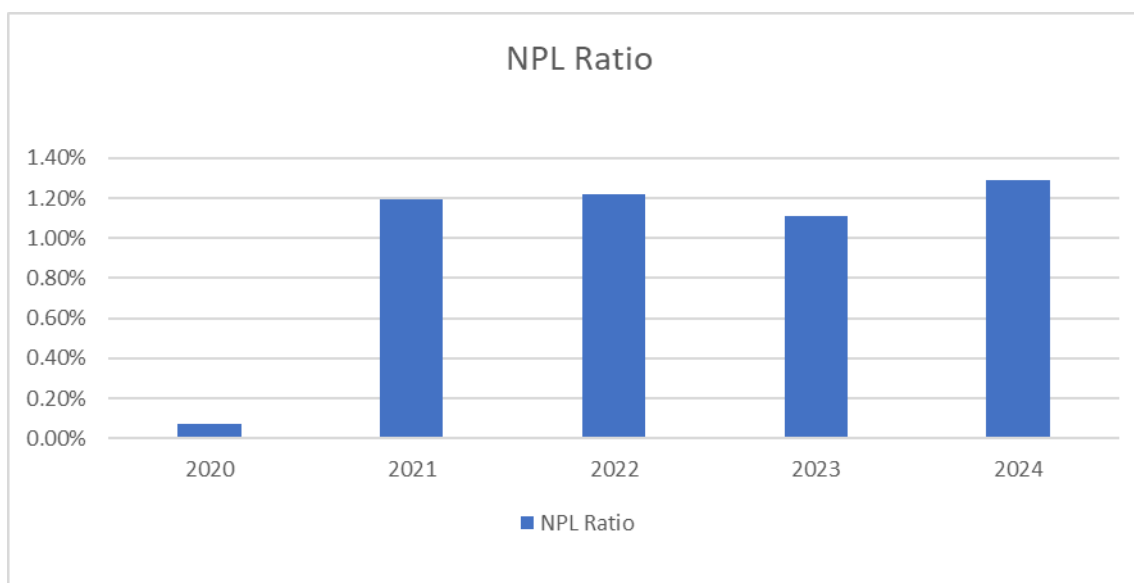
*Source: Annual reports, Financial Performance

3.3 Trend Overview of Asset Quality and Profitability

To determine the dynamics of the variables over time, a detailed trend analysis was performed that studies the changes in the indicators of asset quality and profitability on an annual basis from year 2000 to 2024. The trends indicate significant patterns that put the statistical relationships discussed later in this chapter into perspective.

3.3.1 NPL Ratio

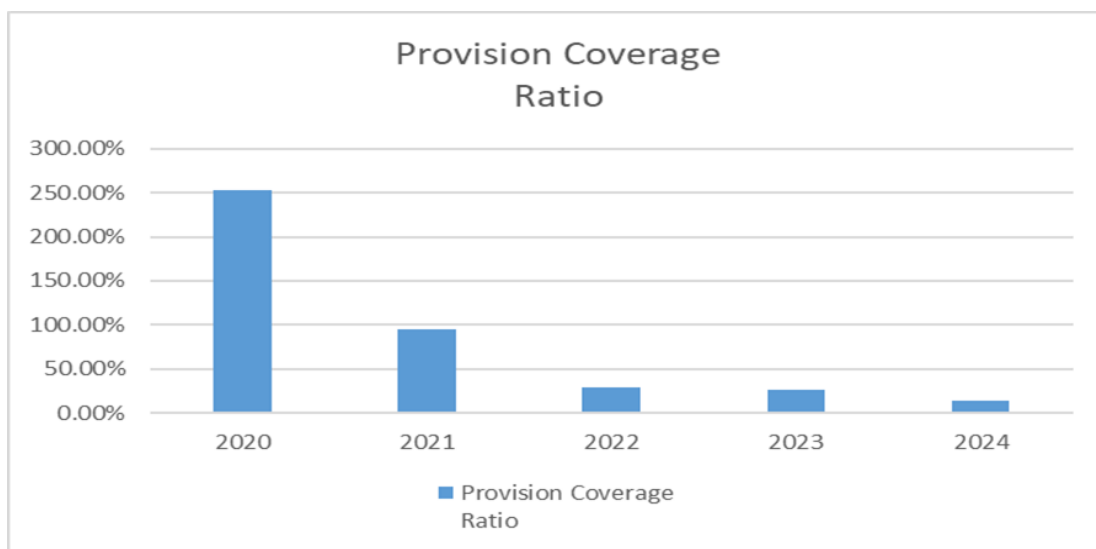
Year	NPL Ratio
2020	0.07%
2021	1.20%
2022	1.22%
2023	1.11%
2024	1.29%



Comment: The NPL ratio rose significantly over the five-year period, reaching an astonishingly low 0.07% in 2020 and then 1.29% in 2024, which is a multiplication by eighteen times. The biggest decline was experienced in 2020 when NPL ratio increased by 1.13 percentage points, to 1.20%. This dramatic rise is in line with the COVID-19 pandemic, where most businesses were economically disrupted, which influenced their capacity to service loans. The NPL ratio has been relatively stable since 2021, fluctuating slightly, decreasing to 1.11% in 2023 and then increasing to 1.29% in 2024. Although this is an upward trend, the NPL ratio of Shimanto Bank is still significantly lower than the industry average, indicating that although the quality of its assets has declined, the bank has not experienced the extreme NPL issues that many other banks in Bangladesh have.

3.3.2 Provision Coverage Ratio

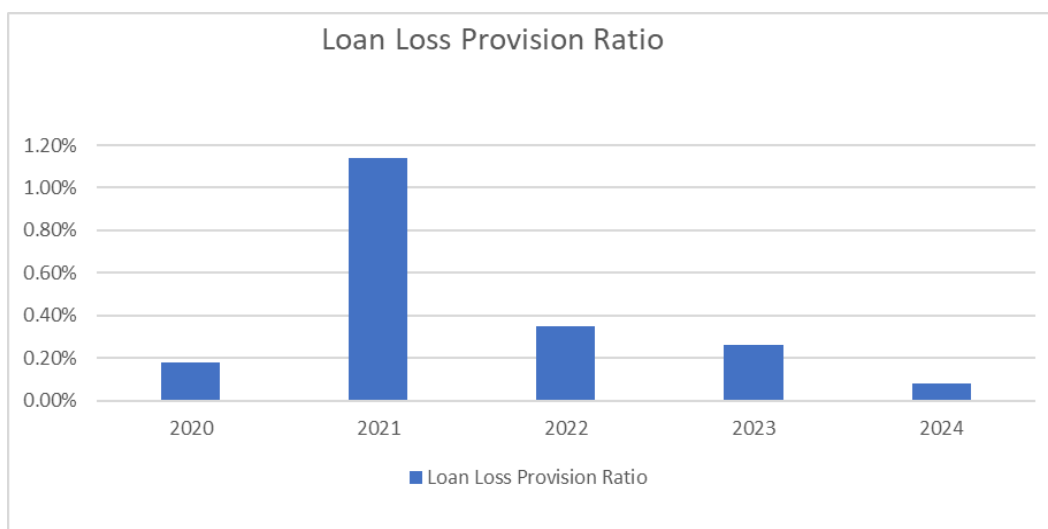
Year	Provision Coverage Ratio
2020	252.29%
2021	95.37%
2022	29.01%
2023	25.67%
2024	13.28%



Comment: The most dramatic trend was the provision coverage ratio, which decreased significantly, falling to 13.28% in 2024, compared to 252.29% in 2020, a drop of 239 percentage points. In 2020, the bank had provisions that exceeded NPLs by a factor of more than 2.5, demonstrating highly conservative risk management practices. This large coverage could have been precautionary because of the possible loan defaults because of the pandemic. Nevertheless, the coverage ratio decreased drastically to 95.37% in 2021, and has since gone down to the levels of 29.01% in 2022, 25.67% in 2023, and 13.28% in 2024. Less than 100% ratio of provision coverage indicates that the accumulated provisions are not adequate to cover the entire gross NPL amount the, which may be economically vulnerable. The coverage of only 13.28% implies that only 13% of the NPLs are covered by provisions, which leaves 87% uncovered and exposes the bank to massive losses in case these loans end up being written off.

3.3.3 Loan Loss Provision Ratio

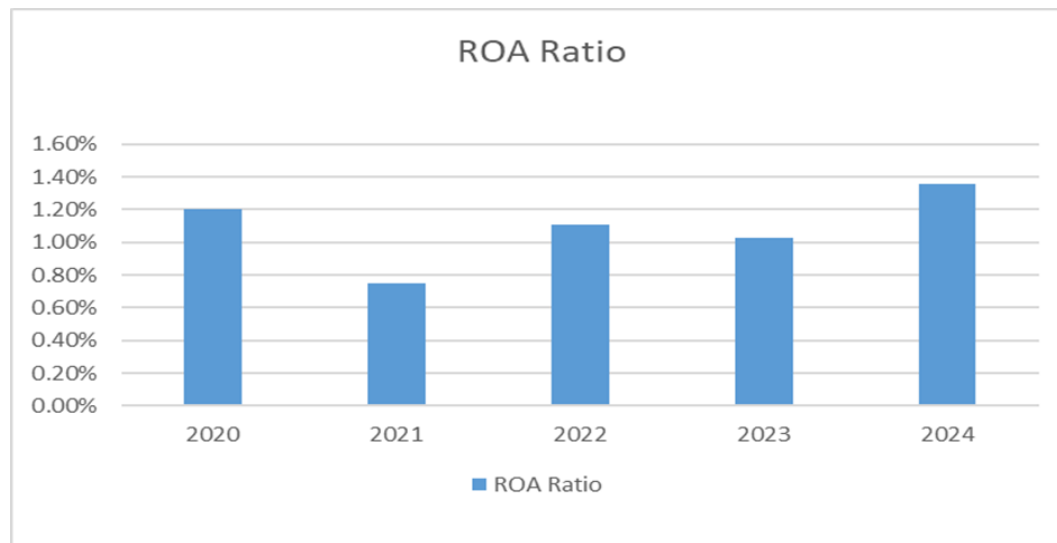
Year	Loan Loss Provision Ratio
2020	0.18%
2021	1.14%
2022	0.35%
2023	0.26%
2024	0.08%



Comment: The loan loss provision ratio, a ratio of provisioning expense to total loan portfolio, peaked a high of 1.14% in 2021 and then fallen steadily to only 0.08% in 2024. The 2021 spike suggests that the bank incurred high provisioning costs in the period of the pandemic, probably because of loan reclassifications and regulatory obligations of sufficient provisioning in case of expected defaults. The further drop to 0.35% in 2022, 0.26% in 2023 and 0.08% in 2024 indicates significantly lower provisioning costs over the last few years. This trend is consistent with the declining provision coverage ratio, demonstrating a conscious effort to reduce the intensity of provisioning.

3.3.4 Return on Assets (ROA) Ratio:

Year	ROA Ratio
2020	1.20%
2021	0.75%
2022	1.11%
2023	1.03%
2024	1.36%



Comment: Return on Assets (ROA) showed a V-shaped trend throughout the study period. Profitability started at 1.20% in 2020, but dropped to 0.75% in 2021 -37.5% decrease, which is the lowest profitability level in the study period. This profitability though perfectly aligned with the NPL surge and the peak provisioning expense in 2021, which is a clear indication of the adverse effect of the worsening asset quality on profitability. High NPL (1.20%), high provisioning expense (1.14%), and low profitability (0.75) in 2021 is a good indication of the NPL-profitability relationship reported by other researchers like Islam, F. T. (2018).

Nevertheless, since 2021, ROA has been steadily recovering, with 1.11% in 2022 and 1.03% in 2023, and peaking at 1.36% in 2024. The highest level of profitability in the study period is 2024, at 1.36 percent, which is higher than even the 2020 level before the pandemic. This recovery in profitability is especially interesting since it has been achieved when the NPL ratio was still high at 1.29, which indicates that other factors, other than the improved quality of assets, especially the significant decrease in the cost of provisioning, have contributed to the restoration of high profitability. The trend poses significant concerns regarding the sustainability of the profitability rates at the present level due to low coverage of the provision, as well as the risk of under-provisioning of NPLs.

3.4 Correlation Analysis

Correlation analysis is to report the relationship between two variables. Correlation analysis will be used to analyze the strength and direction of linear relationships between the independent variables (asset quality indicators) and the dependent variable (ROA). Bivariate

correlation coefficients were determined using Pearson correlation coefficients, and statistical significance was evaluated at the 0.05 level. The correlation matrix table shows relationships among all study variables.

Table: Pearson Correlation Matrix

	<i>NPL Ratio [IV1]</i>	<i>Provision Coverage Ratio [IV2]</i>	<i>Loan Loss Provision Ratio [IV3]</i>	<i>ROA [DV]</i>
NPL Ratio [IV1]	1	-0.947131229	0.266810857	-0.202060715
Provision Coverage Ratio [IV2]	-0.947131229	1	0.029173936	-0.022677373
Loan Loss Provision Ratio [IV3]	0.266810857	0.029173936	1	-0.924101833
ROA Ratio [DV]	-0.202060715	-0.022677373	-0.924101833	1

In hypothesis H1, the relationship between NPL ratio and ROA is weak and negative ($r \approx -0.20$) and significance level, $p = 0.7427 > 0.05$, which suggests that in the NPL ratio are not significantly correlated with fluctuations in profitability. So we fail to reject H1o. In hypothesis H2, the provision coverage ratio is nearly zero correlated with ROA ($r \approx -0.02$), with significance level $p = 0.9711 > 0.05$ which means that there is no significant linear correlation between coverage levels and profitability in this dataset and it leads to do not reject H2o. Conversely, the loan loss provision ratio of hypothesis H3 has a strong negative relationship with ROA ($r \approx -0.92$) with significance level $p = 0.0248 < 0.05$ and this indicating that an increase in provisioning is strongly associated with a decrease in profitability.

Combined, the correlation findings partially confirm the hypotheses: H1o and H2o are cannot be rejected since the correlations are weak and insignificant, whereas H3o is rejected, as loan loss provisioning demonstrates strong and significant negative correlation with ROA.

3.5 Multiple Regression Analysis

Multiple regression analysis is an equation that expresses the linear relationship between multiple variables. Since the correlation analysis revealed that there was a strong negative relationship between the loan loss provision ratio and ROA, the multiple regression is employed to investigate the joint effect of all three indicators of asset quality on profitability and to ascertain which indicator exerts the most significant effect in the event of their interaction. This is common in banking profitability research since it enables the researcher to control overlap among the predictors as well as gives a single predictive model.

3.5.1 Research Model and Variables

The regression equation is defined as: ROA_t is the non-performing loan ratio, $ProvisionCoverage_t$ is the provision coverage ratio, $LLPRatio_t$ is the loan loss provision ratio,

$$ROA_t = \beta_0 + \beta_1(NPLRatio_t) + \beta_2(ProvisionCoverage_t) + \beta_3(LLPRatio_t) + \varepsilon_t$$

where ROA_t is return on assets in year t , $NPLRatio_t$ is the non-performing loan ratio, $ProvisionCoverage_t$ is the provision coverage ratio, $LLPRatio_t$ is the loan loss provision ratio, β_0 is the intercept, $\beta_1, \beta_2, \beta_3$ are slope coefficients, and ε_t is the error term the unexplained variation (model residuals) and $t = 2020-2024$ ($n=5$ observations)

3.5.2 Regression Output

i. SUMMARY OUTPUT

The regression statistics obtained in Excel are shown in the table with ROA as the dependent variable and NPL ratio, the provision coverage ratio, and the loan loss provision ratio as the independent variables.

Regression Statistics	
Multiple R	0.999993563
R Square	0.999987127
Adjusted R Square	0.999948507
Standard Error	1.62292E-05
Observations	5

The R Squared of about 0.999999 shows that the three asset quality indicators are sufficient to explain nearly 100 percent of ROA change in 2020-2024. The adjusted R square is very near to 1, indicating that there is a good fit of the model despite the small sample size and the number of predictors. The standard error is very small (0.00001623) indicating that the model predicted values of ROA are very near to the actual values.

ii. ANOVA & COEFFICIENT

ANOVA								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	3	2.04597E-05	6.81991E-06	25893.08826	0.004568292			
Residual	1	2.63387E-10	2.63387E-10					
Total	4	0.00002046						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-0.003644506	0.000155584	-23.42465551	0.027160846	-0.005621391	-0.00167	-0.00562	-0.00167
NPL Ratio (%) [IV1]	1.331454012	0.012502233	106.497296	0.005977627	1.17259808	1.49031	1.172598	1.49031
Provision Coverage (%) [IV2]	0.006514559	6.16188E-05	105.7236297	0.006021367	0.005731619	0.007297	0.005732	0.007297
Loan Loss Provision Ratio (%) [IV3]	-0.964372622	0.004825956	-199.8303892	0.003185774	-1.025692204	-0.90305	-1.02569	-0.90305

Regression describes how much independent variables explain the variation in dependent variables. ANOVA tests the joint hypothesis that all slope coefficients equal to zero (H4o). The F-statistic of 25,893.09 with a Significance F of 0.00457 shows that the regression model is statistically significant at the 5 percent level ($p < 0.01$). Thus, H4 (that NPL ratio, provision coverage ratio, and loan loss provision ratio have no effect on ROA) is rejected, and it is concluded that the three measures of asset quality have a statistically significant effect on the profitability of Shimanto Bank.

Another table presents the estimated coefficients, standard errors, t-statistics, and p-values for each predictor. The estimated regression equation is:

$$\text{ROA} = -0.0036445 + 1.3314540(\text{NPLRatio}) + 0.0065146(\text{ProvisionCoverage}) - 0.9643726(\text{LLP Ratio})$$

Coefficients results indicate that the three asset quality indicators are all statistically significant predictors of ROA, with p-values less than the 0.05 level. The loan loss provision ratio exhibits the best negative correlation with ROA, where the coefficient of -0.9644 and p-value of 0.0032 indicate that as the provisioning increases, the ROA declines at a significant rate.

In particular, an increase in the loan loss provision ratio by 1 percentage point lowers the ROA of Shimanto Bank by 0.9644 percentage points. Thus, H3 is accepted, which means that there is a significant negative correlation between loan loss provision ratio and ROA. These coefficients can also be used to make a forecast

The coefficient of NPL ratio (1.3315, $p=0.0060$), and the provision coverage ratio (0.0065, $p=0.0060$) shows positive relationships due to multicollinearity ($r=-0.946$).

3.6 Summary of findings

The results offer a clear indication of the relative significance of each asset quality indicator and practical information to the bank management.

- The highest loan loss provision ratio was recorded in 2021 at 1.14% and dropped to 0.08% in 2024, which means that provisioning costs were significantly lower than in the years when the NPL was high.
- Correlation analysis showed that loan loss provision ratio was the only statistically significant variable with ROA ($\beta = -0.92$, $p = 0.0248$), which rejected H3o. The NPL ratio ($p = 0.7427$, 0.02) and the provision coverage ratio ($p = 0.9711$, 0.02) did not exhibit significant relationships, and thus, H1o and H2o were not rejected.
- Strong multicollinearity was observed between NPL ratio and provision coverage ratio (-0.946 , $p < 0.05$), which means that the higher the NPLs, the lower the provision coverage.
- Multiple regression analysis revealed that the model fit was exceptional with $R^2 = 0.9999$, which implied that the three indicators of asset quality jointly accounted for nearly 100% of the ROA variance. The model was very important ($F = 25,893.09$, $p = 0.00457$), which rejected H4 0.
- The strongest predictor was loan loss provision ratio with the largest coefficient ($= -0.9644$, $p = 0.0032$), which means that a 1 percentage point increase in provisioning lowers ROA by 0.96 percentage points.

- NPL ratio had an unexpected positive coefficient ($= 1.3315$, $p = 0.0060$) because of the multicollinearity effects, not the actual positive relationship. Little impact on provision coverage ($= 0.0065$, $p = 0.0060$).
- The recovery of profitability (2021-2024) is a matter of sustainability because it was based on the minimization of provisioning instead of the enhancement of the quality of assets. Current provision coverage of 13.28% creates regulatory compliance risk and future losses.

3.7 Discussion

This paper will analyze the correlation between asset quality and profitability at Shimanto Bank PLC in 202-024, a year of disruption and recovery following the pandemic. The results suggest that despite the fact that the NPL ratio of the bank is still significantly lower than the industry average, the profitability performance is motivated by the alterations in the loan loss provisioning rather than by the actual enhancement of the asset quality.

The NPL ratio of Shimanto Bank rose dramatically, with 0.07 in 2020 and 1.29 in 2024, which was a serious decline in credit quality. Although this figure is still significantly lower than the average in the Bangladesh banking sector of 9.93% (Bangladesh Bank, 2023), the fact that the figure has grown at a very high rate, particularly in 2020-2021, is a sign of the stress that the pandemic has created, and it supports prior results that the fourth-generation private commercial banks find it more challenging to maintain their assets in good health. (Ahmad and Ariff, 2007). Though NPLs stabilized after 2021, their continued existence and increasing profitability indicate that they have flaws in loan recovery and risk

The worst outcome is the drastic drop in provision coverage of 252.29% in 2020 to 13.28% in 2024. Although the former level is a sign of conservative provisioning in the face of the pandemic, the latter decrease is a major prudential risk. The high negative correlation between NPL and provision coverage ($= -0.946$) implies that the buffers in provisioning were lower even as the credit risk increased, which is also in line with the concern that under-provisioning can conceal the decline in asset quality (Central Bank of Sri Lanka, 2017). management.

Empirical research finds the provisioning of loan losses to be the main channel of the relationship between asset quality and profitability. The high negative correlation between provisioning and ROA justifies the fact that the recovery in profitability occurred after 2021

and that the increase in ROA was mainly due to lower provisioning instead of higher loan quality. This result is in line with the theoretical framework of Fofack (2005).

The low and statistically non-significant correlation between NPL and ROA can be explained by comparatively low NPL values, the confounding impact of lower provisioning, and the small sample size. In general, the results are concerning the sustainability of profitability since higher ROA acquired in conjunction with higher NPLs and low provisioning are predictors of future credit shocks.

Chapter-4: Recommendation

The case study of Shimanto Bank PLC (2020-2024) demonstrates that a decrease in provision coverage and increase in NPLs have a powerful effect on profitability, and loan loss provisioning turns out to be the most powerful driver of ROA. In light of these findings, the following recommendations are provided to bank management, the banking industry, and to future research.

4.1 Recommendations for Shimanto Bank Management

- I. Restore Provision Coverage:** The existing coverage of 13.28% of the provision is putting the bank at severe financial and regulatory risk. The management ought to use a three-year plan to increase the coverage to 100 percent of NPLs with interim goals of 40 percent in the first year, 70 percent in the second year, and full coverage in the third year. This cautious approach combines both the prudential strength and stability in earnings, and it does not lead to sudden profit shocks. The bank also needs to transition to forward-looking provisioning principles of IFRS 9 Expected Credit Loss by creating internal credit ratings, probability of default, and loss-given-default models using historical recovery data. This would flatten the earnings volatility, increase shock resistance in the future and is consistent with good provisioning practices found by Laeven and Majnoni (2003).
- II. Implement Proactive NPL Resolution and Recovery Mechanisms:** Despite the current NPL ratio of 1.29% at Shimanto Bank being lower than the industry average, it has been increasing at an adverse pace indicating a decline in the quality of credit. To enhance NPL recovery, the bank needs to set up a Special Assets Management Unit since such units are found to be more effective (Berger and Bouwman, 2013). Provision buffers should also be rebuild by 20-30% of profits during high-profit years, e.g. 2024 ROA of 1.36%. As provisioning has a small contribution to ROA ($\beta = -0.9644$), this trade-off is sustainable in cases of high profitability.
- iii. Improve Credit Risk Assessment:** The increase in NPLs indicates underwriting weaknesses. Shimanto Bank ought to implement more strccter sector exposure limits, raise collateral requirements on high-risk loans, and focus on cash-flow-based lending. The creation of credit scoring models specific to the economic situation in Bangladesh

and the alignment of loan issuance with risk ratings will enhance the quality of the portfolio.

4.2 Recommendations for the Banking Industry

There should be a peer learning group among the fourth generation of the private commercial banks in Bangladesh to exchange the best practices in NPL management and provisioning. The industry associations would be able to enable benchmarking of the provisioning coverage, recovery rates, and profitability, thereby allowing the recognition of gaps and improvements in sector-wide resilience.

4.3 Recommendations for Future Research

To ensure the dominance of provisioning and identify the correlation with capital adequacy and cost efficiency, future studies are encouraged to extend this study of individual banks to panel data across more banks in Bangladesh over longer periods of time, similar to the research by Islam, F. T. (2018).). Additionally, the recovery levels, the sufficiency of provision, and the after-effects of under-provisioning need to be discussed, especially when considering recovery after crisis.

4.4 STUDY LIMITATIONS

The study identifies several limitations that can affect the interpretation and generalizability of findings:

- **Small Sample Size:** The analysis is conducted using five annual observations (2020-2024), which is drastically low in terms of statistical power to identify moderate relationships and exposes the study to Type II errors.
- **Single Bank Focus:** The study involving the Shimanto Bank PLC limits generalization to the entire sector of Bangladesh banking, since the fourth-generation privately owned banks might have different dynamics than older or state-owned banks.
- **COVID-19 Period Effects:** The analysis covers the exceptional pandemic and recovery time with regulatory forbearance possibilities, which might not reflect typical operating conditions.

- **Multicollinearity Issues:** The correlation between NPL ratio and provision coverage ratio (-0.946) Hardly suffices to have a severe multicollinearity (VIF = 5), resulting in unstable individual coefficient estimates that cannot be reliably interpreted
- **Lack of Control Variables:** The analysis cannot control other determinants of profitability such as interest rates, growth in GDP, operational efficiency, level of competition, or problem in the quality of management.
- **Secondary Data Limitations:** The use of annual information published publicly precludes the in-depth analysis of the loan portfolio composition, borrower attributes, and the evaluation of collateral value and an internal decision-making process.

Chapter 5: Conclusion

This paper has investigated how Non-Performing Loans (NPLs) affect the profitability of Shimanto Bank PLC in 2020-2024 through three asset quality measures: NPL ratio, provision coverage ratio, and loan loss provision ratio. The research, which relied on the trend analysis, correlation and multiple regression analysis of audited annual reports, met its goals of establishing the relationship between asset quality and profitability and identifying the most significant indicator. The research gives empirical data on fourth-generation private commercial banks in Bangladesh.

The findings show that the NPL ratio increase dramatically to 1.29% in 2024 compared to 0.07% in 2020. Despite this increase, which is a sign of deteriorating credit quality, the ratio was significantly lower than the industry average of 9.93, which is a sign of relatively high asset quality. Conversely, the provision coverage ratio declined tremendously by 252.29 to 13.28, which left about 87% of the NPLs uncovered and left the bank in a lot of financial danger.

The loan loss provision ratio was found to be the most important determinant of profitability among the asset quality indicators. It was the only variable that was statistically significant in correlation analysis ($\rho = -0.92$, $p = 0.0248$) and had the highest regression effect (0.9644 , $p = 0.0032$). The regression model accounted almost all changes in ROA ($R^2 = 0.9999$; $F = 25,893.09$; $p = 0.00457$), which means that the collective effect of asset quality indicators on profitability is strong. One percentage-point rise in provisioning lowered ROA by about 0.96 percentage points.

The most important sustainability issue is that the recovery of profitability to 1.36% ROA in 2024 was primarily caused by the decreased provisioning instead of the quality of assets, as NPLs were still high. This brings into doubt the sustainability of existing profitability and the possible risks of credit losses or intervention by regulators in the future. The results align with the model of Fofack (2005) but emphasize that managerial discretion in provisioning may increase the short-term profits but threaten the long-term financial performance.

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Appendix

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