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ANALYSIS OF CREDIT RISK: DESIGNATED SEVEN COMMERCIAL BANKS OF BANGLADESH

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ABSTRACT

One of the fundamental businesses of a Bank is to encompass credit to numerous entrepreneurs affianced in manufacturing, trading or in service industry for socio-economic improvement of the country. Extension of any credit does not ineludibly certify proper utilization and safe return thereof. There are some risks that the borrower may not return the money according to the agreed terms due to inability or unwillingness or may breach other covenant or terms of sanction creating adverse impact on profitability, capital, image and reputation of the bank. This may summons not only financial loss but also operational hazards and reputational threat. Such risks may arise from direct funding activities as well as from non-funding commitments. Risk is an intrinsic part of banking business. In case of credit business, the risk is more substantial and also sensitive. The rate at which the credit risk is snowballing in the banking sector of Bangladesh is not anticipated. We have enumerated the credit risk of the banking sector in Bangladesh in this study. We took seven commercial banks as model and evaluated their credit risk. We used the ratio analysis technique to study this. We got some banks those have higher, some banks those have moderate and some banks those have lower credit risk. This study divulges that non-performing loan of almost every bank is swelling. If this growing inclination is unrelenting, our banking sector will be in vulnerability.

KEYWORDS: *Socio-Economic, Profitability Financial Loss, Operational Hazard, Reputational Threat. Non-Funding Commitment, Credit Risk, Commercial Bank, Non-Performing Loan*

CONTRIBUTION/ ORIGINALITY

This study is one of very few studies which have investigated the credit risks of particular commercial banks expending quantitative tool unveiling a disquieting prominence on the non-performing loans rising. The sensitivity of credit risk has been taken into consideration with non-performing loan swallowing.

Article History

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INTRODUCTION

Now-a-days credit risk is a somber delinquent in our banking system. Credit risk is related to the risk that transpires when a borrower is inept to pay its obligation i.e. its principal plus interest to the lender. Credit risk is the leeway of a loss resulting from a borrower's catastrophe to repay a loan or meet contractual obligations. To reduce the lender's credit risk, the lender may perform a credit check on the prospective borrower, may entail the borrower to take out apposite insurance, such as mortgage insurance, or seek security over some assets of the borrower or a guarantee from a third party. The lender can also take out insurance against the risk or on-sell the debt to another company. In general, the higher the risk, the higher will be the interest rate that the debtor will be asked to pay on the debt. Credit risk mainly arises when borrowers are unable to pay due willingly or unwillingly.Credit risk analysis can be thought of as an extension of the credit allocation process. After an individual or business applies to a bank or financial institution for a loan, the lending institution analyzes the potential benefits and costs associated with the loan. Credit risk analysis is used to estimate the costs associated with the loan. To judge a company's ability to pay its debt, banks, bond investors, and analysts conduct credit analysis on the company. Using financial ratios, cash flow analysis, trend analysis, and financial projections, an analyst can evaluate a firm's ability to pay its obligations. A review of credit scores and any collateral is also used to calculate the creditworthiness of a business. The purpose of this study is to assess the credit risks of selected commercial banks using quantitative tool exhibiting an alarming emphasis on the non-performing loans rising.

2. LITERATURE REVIEW

Increased competition and the attempts of European Banks to increase their presence in other markets may have affected the efficiency and credit risk in the banking system. According to José (2010) "The first aspect is the incentive in reducing costs in order to gain in competitiveness. The second is associated with their lack of knowledge of such markets and/ or acceptance of a higher risk in order to increase their market share." There exist some important determinants of credit risks. Credit risk theories and empirical literature suggest eight credit risk determinants. Credit risk has an impact on the performance of commercial banks. The relationship needs to be scrutinized effectively as it yields positive or negative results. Kolapo, Ayeni, and Oke (2012) The study carried out an empirical investigation into the quantitative effect of credit risk on the performance of commercial banks in Nigeria over the period of 11 years (2000-2010). Five commercial banking firms were selected on a cross sectional basis for eleven years. The results showed that the effect of credit risk on bank performance measured by the Return on Assets of banks is cross-sectional invariant. Richard, Chijoriga, Kaijage, Peterson, and Bohman (2008) The purpose of this (2008) paper is to develop a conceptual model to be used further in understanding credit risk management (CRM) system of commercial banks (CBs) in an economy with less developed financial sector. DimitrisGavalas and Theodore Syriopoulos Credit risk measurement remains a critical field of top priority in banking finance, directly implicated in the recent global financial crisis. This paper examines the dynamic linkages between credit risk migration due to rating shifts and prevailing macroeconomic conditions, reflected in alternative business cycle states. An innovative empirical methodology applies to bank internal rating data, under different economic scenarios and investigates the implications of credit risk quality shifts for risk rating transition matrices. The empirical findings are useful and critical for banks to align to Basel guidelines in relation to core capital requirements and risk-weighted assets in the underlying loan portfolio. Various factors affect credit risk analysis. All the factors are to be identified and handled prudently. SwaranjeetArora This paper attempts to identify the factors that contribute to Credit Risk analysis in Indian banks and to compare Credit Risk analysis practices followed by Indian public and private sector banks, the empirical study has been conducted and views of employees of various banks have been tested using statistical tools. Present study explored the phenomenon from different perspectives and revealed that Credit Worthiness analysis and Collateral requirements are the two important factors for analyzing Credit Risk. From the descriptive and analytical results, it can be concluded that Indian banks efficiently manage credit risk. The results also indicate that there is significant difference between the Indian Public and Private sector banks in Analyzing Credit Risk. Financing structure has also a link with credit risk. Rahman and Shahimi (2010) This study examines the impact of financing structure on Islamic banks' credit risk exposure via four measures: 1) real estate financing; 2) financing specialization; 3) short-term financing structure stability; and 4) medium-term financing structure stability. While controlling the bank-specific variables, our findings indicate that real estate financing and financing structure stability to some extent influence credit risk exposure. However, the significant effects disappear when we incorporated the macroeconomic variables in the framework.

This study will focus on the credit risk analysis of seven commercial banks based on quantitative judgment.The concept of the credit risk management has gained momentum in recent years with financial institutions developing techniques aiming at minimizing credit risk and regulatory bodies coming up with policies ensuring banks adequately manage their risks.

Muhamet and Arbana (2016) This study was carried out to quantitatively determine how risk management affects the banks profitability. Banks can be encouraged to cut-down their lending rates in other to decrease credit risk and subsequently boost profitability. Regarding operational risk, banks should reduce leverage and have their portfolio more concentrated on liquid investment income so as to boost profitability (Samuel, Holy, John, & Louis, 2019).

This study assessed the effect of credit and operational risk on the financial performance of universal banks in the context of the structural equation model (SEM) (Saeed & Zahid, 2016). This paper aimed to analyse the impact of credit risk on profitability of five big UK commercial banks. The results also reveal that the bank size, leverage, and growth were also positively interlinked with each other, and the banks achieved profitability after the financial crisis and learned how to tackle the credit risk over the years. With the diversified developments of the financial market, commercial banks are confronted with various risks, among which the credit risk is the core, and thus the assessment of enterprises' credit risks is especially important in the credit process of the commercial banks. Na, Jiayi, Yuanfeng, and Yu (2016) Based on the relevant researches about commercial banks' credit risk management, the paper carries out a deep analysis on the factors that may affect the credit risk assessment and then establishes a relatively comprehensive credit risk assessment system. Hakimi, Boussaada, and Hamdi (2020) The findings indicate that bank profitability decreases significantly the level of credit and liquidity risks. They also found that the law and order as institutional quality increases the profitability of MENA banks and decreases both credit and liquidity risks.

CREDIT RISK

Credit risk can be defined as there is a possibility that a borrower may be unable to repay a loan and the lender may not get the principal and interest of the loan. Borrowers of a loan always expect that they will use future cash flow to repay the loan. But it is not possible to ensure that borrowers will get certain return to repay the loan from the investment for which they have made the loan. In this case the credit risks arise. Credit risk or credit default risk associated with a financial transaction is simply the expected loss of that transaction. It can be defined as: Credit Risk = Default Probability x Exposure x Loss Rate; where: Default Probability is the probability of a debtor reneging on his debt payments. Exposure is the total amount the lender is supposed to get paid. In most cases, it is simply the amount borrowed by the debtor plus interest payments. Loss Rate = 1 – Recovery Rate, where Recovery Rate is the proportion of the total amount that can be recovered if the debtor defaults. Credit risk analysts analyze each of the determinants of credit risk and try to minimize the aggregate risk faced by an organization.

Credit Risk Analysis

Credit analysis is a tool for calculating the creditworthiness of a business or corporation. In other words, it is the evaluation of the ability of a company to meet its financial obligations. When bank make a commercial loan to a company or organization they evaluate the creditworthiness of such companies or organizations. They analyze the financial statements of such companies who applied for loan when it issues loan whether the organization is small or large. Credit analysis also involves in an examination of collateral of the borrowers as well as credit history and management ability of the organization. Credit analysis is the financial analysis of a firm including ratio and trend analysis.

4. FINANCIAL RATIOS FOR ANALYZING CREDIT RISK

For analyzing the credit risk of the selected banks, we used following ratios:

- Liquidity Ratio: Current Ratio & Quick Ratio
- Financial Leverage Ratio: Debt to Equity ratio, Time Interest Earned (TIE) Ratio, Debt to Asset Ratio, Capitalization Ratio
- Profitability Ratio: Return on Equity (ROE), Return on Asset (ROA) &Net Profit Margin
- Risk Ratio: Provision for Loan Losses Ratio & Loan Ratio
- Other Financial Ratio: Cost Income Ratio & Credit Deposit Ratio

Selected Banks for Analysis

For this analyzing purpose, we select ten well known commercial banks. These are-

- Bank Asia Limited
- BRAC Bank Limited
- UCB Limited
- Dhaka Bank Limited
- Eastern Bank Limited
- Trust Bank Limited
- Prime Bank Limited

I. BANK ASIA LIMITED

Table 1: Brief Profile of BANK ASIA LIMITED

Type	Commercial Bank
Formation	November 27, 1999
Headquarters	Dhaka, Bangladesh
Key people	Mr. A. RoufChowdhury (Chairman)
Products	Banking Services, Consumer Banking, Corporate Banking, Agent Banking, Islamic Banking

Source: Official Website

a. Key Financial Indicators-At a Glance (Last five years-in millions)

Table 2: Key Financial Indicators: BANK ASIA LIMITED

Particulars	2012	2013	2014	2015	2016
Interest income	13,296.06	14,319.42	13,914.31	13,941.18	14,569.39
Interest expense	9,616.35	11,139.14	10,699.77	11,170.32	10,600.94
Net interest income	3,679.71	3,180.28	3,214.54	2,770.86	3,968.45
Non-interest income	2,210.32	2,299.08	2,442.54	2,728.65	3,123.14
Non-interest expense	2,768.87	3,117.39	3,907.37	4,321.26	4,719.26
Net non-interest income	(558.55)	(818.31)	(1,464.83)	(1,592.61)	(1,596.12)
BALANCE SHEET					
Authorized capital	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00
Paid-up capital	6,305.75	6,936.32	7,629.96	8,392.95	8,812.60
Total shareholder’s equity	13,045.17	14,617.70	16,864.42	18,979.33	19,038.48
Deposits	110,061.78	133,489.37	140,869.29	169,827.34	191,272.58
Long term liabilities	21,945	51,361	52,610	54,819	93,140
Loans and advances	92,328.82	104,911.26	116,808.85	136,396.34	163,609.78
Investments	25,114.90	33,933.36	38,683.41	46,942.77	39,365.21
Property plant and equipment	4,520.49	5,288.35	5,213.61	5,075.51	5,249.72
Earning asset	129,078.12	150,629.28	156,535.38	196,955.81	223,223.17
Net current asset	(6,870)	10,158	6,785	10,540	6,276
Total asset	140,361.37	163,777.74	182,730.94	224,347.31	253,195.70
Current ratio	0.93	1.11	1.06	1.07	1.05
Equity debt ratio	9.76	10.20	9.84	10.82	12.30
CREDIT QUALITY					
Non-performing loans	5,251.48	5,878.79	6,200.55	5,808.87	8,847.34
NPLs to total loans and advances (%)	5.69	5.60	5.31	4.26	5.41

Source: Annual Report of Bank Asia (2012-2016).

b. Key Financial Ratios

Table 3: Key Financial Ratios: BANK ASIA LIMITED

Ratios	Formula		Years 2012	2013	2014	2015	2016
Liquidity	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.93	1.11	1.06	1.07	1.05
	Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$	0.93	1.11	1.06	1.07	1.05
Financial Leverage	Debt to Equity Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Equity}}$	9.76	10.20	9.84	10.82	12.30
	Times Interest Earned Ratio	$\frac{\text{EBIT}}{\text{Interest Expenses}}$	0.28	0.32	0.39	0.37	0.31
	Debt to Asset Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Asset}}$	0.91	0.91	0.91	0.92	0.92
	Capitalization Ratio	$\frac{\text{Long Term Debt}}{\text{Long Term Debt} + \text{Preferred Stock} + \text{Eq}}$	0.63	0.78	0.76	0.74	0.83
Profitability	Return on equity (%)	$\frac{\text{Net Income}}{\text{Total Equity Capital}}$	7.11	10.55	14.09	14.36	8.13
	Return On asset (%)	$\frac{\text{Net Income}}{\text{Total Asset}}$	0.70	0.96	1.28	1.26	0.65
	Net Profit Margin (%)	$\frac{\text{Net Income}}{\text{Sales}}$	5.21	7.42	10.88	11.97	7.28
Risk	Provision for loan losses Ratio (%)	$\frac{\text{Provision for loans and losses}}{\text{Total loans \&losses}}$	0.78	1.50	1.20	1.19	1.45
	Loan Ratio (%)	$\frac{\text{Net loan}}{\text{Total Asset}}$	66.0	64.0	64.0	61.0	65.0

Table 3: Contd.,

Other Financial Ratio	Cost income Ratio (%)	$\frac{\text{Operating expenses}}{\text{Operating Income}}$	35.40	36.53	40.34	41.84	44.35
	Credit Deposit Ratio (%)	$\frac{\text{Loans}}{\text{Deposits}}$	83.89	78.59	82.92	80.31	85.54

Source: Individual Analysis

Analysis

The above table shows the position of Bank Asia Limited during five years (2012-2016) period. From the table we see that, the current ratio was in a stable trend and it was highest in 2013. As there were no inventories, the quick ratio was same as current ratio. The debt to equity ratio was highest in 2016 and debt to asset ratio was almost same all the year, time interest earned ratio began to decrease from 2015 & capitalization ratio was in an increasing trend. Return on equity, return on assets and net profit margin-all the three ratios were in the highest position in 2015 than before but in 2016 all these ratios were decreased. Provision for loan losses ratio was highest in 2013 after that it was decreased but again in 2016 it was near about the amount of 2013 and the loan ratio was decreasing from 2013 but in 2016 it was again increased. The cost income ratio and credit deposit ratio, both the ratios were highest in 2016 than before.

II. BRAC BANK LIMITED

Table 4: Brief Profile of BRAC BANK LIMITED

Type	Public Limited
Industry	Financial Services Banking
Formation	4-Jul-01
Headquarters	Dhaka, Bangladesh
Key people	Dr. Ahsan H. Mansur (Chairman)
Parent	BRAC, IFC

Source: Official Website

a. Key Financial Indicators-At a Glance (of last five years-in millions)

Table 5: Key Financial Indicators: BRAC BANK LIMITED

Particulars	2012	2013	2014	2015	2016
Interest income	16,714	18,134	16,794	17,373	17,842
Interest expense	10,195	11,283	9,192	8,699	7,036
Net interest income	6,519	6,851	7,602	8,674	10,806
Non-interest income	2,846	3,132	3,305	3,957	3,879
Non-interest expense	5,750	6,549	6,635	7,286	7,962
Net non-interest income	(2,904)	(3,417)	(3,330)	(3,329)	(4,083)
BALANCE SHEET					
Authorized capital	12,000	12,000	12,000	12,000	12,000
Paid-up capital	3,855	4,433	7,093	7,093	7,104
Total shareholder's equity	10,155	11,883	17,755	18,815	21,441
Deposits	134,646	127,892	148,464	150,221	168,860
Long term liabilities	19,319.73	20,951.05	24,289.97	28,615.98	28,459.07
Loans and advances	103,624	117,111	121,941	147,434	173,612
Investments	25,373	21,299	23,899	19,779	22,488
Property plant and equipment	2,591.45	2,449.95	2,893.18	2,937.12	2,885.81
Net current asset	(28,823.76)	17,900.38	24,960.68	28,678.13	28,582.30
Total asset	173,676.79	179,712.74	204,593.07	224,492.41	248,605.46
Current ratio	0.84	1.12	1.15	1.16	1.14
Equity debt ratio	10.59	10.93	10.52	14.12	10.59

Table 5: Contd.,

CREDIT QUALITY					
Non-performing loans	7,637	7,601	6,980	8,839	5,911
NPLs to total loans and advances (%)	6.83	6.49	5.72	6.49	6.83

Source: Annual Report of Brac Bank (2012-2016).

b. Key Financial Ratios

Table 6: Key Financial Ratios: BRAC BANK LIMITED

Ratios	Formula		Years				
			2012	2013	2014	2015	2016
Liquidity	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.84	1.12	1.15	1.16	1.14
	Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$	0.84	1.12	1.15	1.16	1.14
Financial Leverage	Debt to Equity Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Equity}}$	10.59	10.93	10.52	14.12	10.59
	Times Interest Earned Ratio	$\frac{\text{EBIT}}{\text{Interest Expenses}}$	0.19	0.28	0.45	0.53	1.02
	Debt to Asset Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Asset}}$	0.94	0.93	0.91	0.92	0.91
	Capitalization Ratio	$\frac{\text{Long Term Debt}}{\text{Long Term Debt + Preferred Sto}}$	0.66	0.64	0.58	0.60	0.57
Profitability	Return on equity (%)	$\frac{\text{Net Income}}{\text{Total Equity Capital}}$	5.47	12.60	14.11	13.32	22.16
	Return On asset (%)	$\frac{\text{Net Income}}{\text{Total Asset}}$	0.35	0.78	1.09	1.13	1.89
	Net Profit Margin (%)	$\frac{\text{Net Income}}{\text{Sales}}$	3.0	6.0	9.0	10.0	18.0
Risk	Provision for loan losses Ratio (%)	$\frac{\text{Provision for loans and losses}}{\text{Total loans \&losses}}$	2.78	2.44	2.03	2.10	1.32
	Loan Ratio (%)	$\frac{\text{Net loan}}{\text{Total Asset}}$	60.0	65.0	60.0	66.0	70.0
Other Financial Ratio	Cost income Ratio (%)	$\frac{\text{Operating expenses}}{\text{Operating Income}}$	52.0	52.0	49.0	48.0	46.0
	Credit Deposit Ratio (%)	$\frac{\text{Loans}}{\text{Deposits}}$	77.0	80.0	82.0	62.0	65.0

Source: Individual Analysis

Analysis

The above table shows the position of BRAC Bank Limited during five years (2012-2016) period. From the table we see that, the current ratio was in a stable trend and it was highest in 2015. As there were no inventories, the quick ratio was same as current ratio. The debt to equity ratio was highest in 2015 and debt to asset ratio was almost same all the year, time interest earned ratio was in an increasing trend & capitalization ratio was in a fluctuating position. Return on equity, return on assets and net profit margin-all the three ratios were gradually increasing. Provision for loan losses ratio was highest in 2012 and the loan ratio was in a highest position in 2016. The cost income ratio decreased gradually but the credit deposit ratio was in a highest position 2014.

III. UNITED COMMERCIAL BANK LIMITED

Table 7: Brief profile of UNITED COMMERCIAL BANK LIMITED

Type	Private(Non-Government)
Formation	26th June 1983
Headquarters	Dhaka, Bangladesh
Key people	Mrs. RukhmilaZaman (Chairman)
Products	Banking Services, Consumer Banking, Corporate Banking, SME Finance

Source: Official Website

a. Key Financial Indicators-At a Glance (of last five years-in millions)

Table 8: Key Financial Indicators of UNITED COMMERCIAL BANK LIMITED

Particulars	2012	2013	2014	2015	2016
Interest income	21318.92	22,999.36	22,360.83	22,434.57	20,832.15
Interest expense	14705.21	15,919.86	14,430.24	14,711.18	12,194.04
Net interest income	6613.71	7,079.50	7,930.59	7,723.38	8,638.11
Non-interest income	3563.95	5,319.08	7,278.80	7,824.62	7,703.97
Non-interest expense	4415.44	5,272.21	6,489.93	7,145.66	8,754.70
Net non-interest income	(851.49)	46.87	788.87	678.96	(1050.73)
Balance Sheet					
Authorized capital	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00
Paid-up capital	8,366.12	8,366.12	8,366.12	10,039.34	10,541.31
Total shareholder's equity	18,171.02	20,504.97	22,491.54	25,588.82	25,756.32
Deposits	170,530.54	184,896.85	211,072.06	220,866.48	257,704.30
Long term liabilities	21,814.54	79,175.89	108,452.94	131,151.53	134,492.22
Loans and advances	136,071.65	148,664.86	174,146.10	197,413.64	223,697.18
Investments	26,090.32	35,587.25	44,288.60	44,345.73	55,475.64
Property plant and equipment	5,222.78	7,957.31	8,510.00	8,586.73	8,380.18
Net current asset	(32,458.08)	15,918.12	17,488.39	19,087.93	27,870.62
Total asset	207,448.38	226,333.13	266,100.74	293,847.23	329,720.78
Current ratio	0.80	1.13	1.13	1.14	1.16
Equity debt ratio	9.45	9.19	9.85	9.36	11.00
Credit Quality					
Non-performing loans	5,015.58	5,985.17	8,050.04	10,324.69	17,920.57
NPLs to total loans and advances (%)	3.69	4.03	4.62	5.23	8.01

Source: Annual Report of UCB (2012-2016).

b. Key Financial Ratios

Table 9: Key Financial Ratios: UNITED COMMERCIAL BANK LIMITED

Ratios	Formula		Years				
			2012	2013	2014	2015	2016
Liquidity	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.80	1.13	1.13	1.14	1.16
	Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$	0.80	1.13	1.13	1.14	1.16
Financial Leverage	Debt to Equity Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Equity}}$	9.45	9.19	9.85	9.36	11.00
	Times Interest Earned Ratio	$\frac{\text{EBIT}}{\text{Interest Expenses}}$	0.25	0.37	0.47	0.49	0.43
	Debt to Asset Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Asset}}$	0.91	0.91	0.92	0.91	0.92
	Capitalization Ratio	$\frac{\text{Long Term Debt}}{\text{Long Term Debt} + \text{Preferred Stoc}}$	0.55	0.79	0.83	0.84	0.84

Table 9: Contd.,

Profitability	Return on equity (%)	$\frac{\text{Net Income}}{\text{Total Equity Capital}}$	9.29	15.85	17.07	16.54	10.24
	Return On asset (%)	$\frac{\text{Net Income}}{\text{Total Asset}}$	0.84	1.41	1.49	1.42	0.84
	Net Profit Margin (%)	$\frac{\text{Net Income}}{\text{Sales}}$	13.76	21.51	21.04	23.67	17.32
Risk	Provision for loan losses Ratio (%)	$\frac{\text{Provision for loans and losses}}{\text{Total loans \& } losses}$	1.14	0.73	0.86	0.46	0.92
	Loan Ratio (%)	$\frac{\text{Net loan}}{\text{Total Asset}}$	66.0	66.0	66.0	67.0	69.0
Other Financial Ratio	Cost income Ratio (%)	$\frac{\text{Operating expenses}}{\text{Operating Income}}$	43.38	42.52	42.67	45.96	53.57
	Credit Deposit Ratio (%)	$\frac{\text{Loans}}{\text{Deposits}}$	79.79	78.55	75.45	80.11	75.97

Source: Individual Analysis

Analysis

The above table shows the position of United Commercial Bank Limited during five years (2012-2016) period. From the table we see that, the current ratio was in an increasing trend and it was highest in 2016. As there were no inventories, the quick ratio was same as current ratio. The debt to equity ratio was highest in 2016 and debt to asset ratio was almost same all the year, time interest earned ratio was highest in 2015 & capitalization ratio was in an increasing trend. Return on equity, return on assets -all these ratios were in the highest position in 2014 than before but in 2016 all these ratios were decreased.Net profit margin was highest in 2015 but again in 2016 it was decreased. Provision for loan losses ratio was highest in 2012 after that it was in a fluctuating trend and the loan ratio was in a stable trend and it was highest in 2016. The cost income ratio was highest in 2016 than before and credit deposit ratio was highest in 2015 than before but decreasing in 2016.

IV. DHAKA BANK LIMITED

Table 10: Brief Profile of DHAKA BANK LIMITED

Type	Private (Non-Government)
Formation	July 5,1995
Headquarters	Dhaka, Bangladesh
Key people	Mr. ReshadurRahman
Products	Banking Services

Source: Official Website

a. Key Financial Indicators-At a Glance (of last five years-in millions)

Table 11: Key Financial Indicators: DHAKA BANK LIIMITED

Particulars	2012	2013	2014	2015	2016
Interest income	13229	15131	13705	12135	13166
Interest expense	10598	11823	10879	10116	9453
Net interest income	2630	3308	2826	2018	3713
Non-interest income	2713	3102	4031	4690	5026
Non-interest expense	2120	2717	3049	3205	3336
Net non-interest income	593	385	982	1485	1690
BALANCE SHEET					
Authorized capital	10000	10000	10000	10000	10000
Paid-up capital	4668	5414	5685	6254	6879
Total shareholder's equity	9683	11887	12746	13389	14446

Table 11: Contd.,

Deposits	107427	115981	124854	139068	157162
Long term liabilities	8334	10890	9734	11870	15487
Loans and advances	90140	99596	103132	117840	134689
Investments	18404	18757	19699	20799	21306
Property plant and equipment	1879	2518	3958	5000	4194
Earning asset	110159	117624	124462	144962	165096
Net current asset	133142	144409	158748	176362	202192
Total asset	2.57	3.18	2.66	2.65	2.51
Current ratio	12.7	11.13	11.5	12.17	12.9
Equity debt ratio	10000	10000	10000	10000	10000
CREDIT QUALITY					
Non-performing loans	5656	4137	5657	5491	5403
NPLs to total loans and advances (%)	6.28	4.15	5.49	4.66	4.01

Source: Annual Report of Dhaka Bank (2012-2016).

b. Key Financial Ratios

Table 12: Key Financial Ratios: DHAKA BANK LIIMITED

Ratios	Formula		Years				
			2012	**2013**	**2014**	**2015**	**2016**
Liquidity	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2.57	3.18	2.66	2.65	2.51
	Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$	2.57	3.18	2.66	2.65	2.51
Financial Leverage	Debt to Equity Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Equity}}$	12.70	11.13	11.50	12.17	12.90
	Times Interest Earned Ratio	$\frac{\text{EBIT}}{\text{Interest Expenses}}$	0.14	0.26	0.80	0.23	0.29
	Debt to Asset Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Asset}}$	0.93	0.92	0.92	0.92	0.93
	Capitalization Ratio	$\frac{\text{Long Term Debt}}{\text{Long Term Debt} + \text{Preferred Stoc}}$	0.46	0.48	0.43	0.47	0.52
Profitability	Return on equity (%)	$\frac{\text{Net Income}}{\text{Total Equity Capital}}$	7.24	16.21	15.92	10.74	10.15
	Return On asset (%)	$\frac{\text{Net Income}}{\text{Total Asset}}$	0.59	1.39	1.34	0.86	0.77
	Net Profit Margin (%)	$\frac{\text{Net Income}}{\text{Sales}}$	3.58	8.79	9.42	7.09	6.21
Risk	Provision for loan losses Ratio (%)	$\frac{\text{Provision for loans and losses}}{\text{Total loans } \& \ losses}$	2.8	2.2	3.8	3.6	1.8
	Loan Ratio (%)	$\frac{\text{Net loan}}{\text{Total Asset}}$	68.00	69.00	65.00	67.00	67.00
Other Financial Ratio	Cost income Ratio (%)	$\frac{\text{Operating expenses}}{\text{Operating Income}}$	39.67	42.38	44.47	47.77	38.17
	Credit Deposit Ratio (%)	$\frac{\text{Loans}}{\text{Deposits}}$	83.91	84.22	81.26	84.74	83.87

Source: Individual Analysis

Analysis

The above table shows the position of Dhaka Bank Limited during five years (2012-2016) period. From the table we see that, the current ratio was highest in 2013 and after that year it was decreasing. As there were no inventories, the quick ratio was same as current ratio. The debt to equity ratio was highest in 2016 and debt to asset ratio was almost same all the year, time interest earned ratio was highest in 2014 & capitalization ratio was highest in 2016. Return on equity, return on assets and net profit margin-all the three ratios were gradually decreasing. Provision for loan losses ratio was highest in

2014 than it decreased. The cost income ratio and credit deposit ratio- both the ratios were in a highest position in 2015.

V. EASTERN BANK LIMITED

Table 13: Brief Profile: EASTERN BANK LIMITED

Type	Public Limited Company
Formation	August 08,1992
Headquarters	Dhaka, Bangladesh
Key people	Mr. Md. Showkat Ali Chowdhury (Chairman)
Products	Consumer banking, Treasury, Corporate banking, SME banking

Source: Official Website

a. Key Financial Indicators-At a Glance (of last five years-in millions)

Table 14: Key Financial Indicators: EASTERN BANK LIMITED

Particulars	2012	2013	2014	2015	2016
Interest income	13,698	14,807	13,160	13.338	13,546
Interest expense	8,884	9,916	9,151	9,793	8,016
Net interest income	4,814	4,892	4,009	3,545	5,529
Non-interest income	3,849	4,491	5,980	6,351	5,930
Non-interest expense	3,199	3,594	4,214	4,691	5,041
Net non-interest income	650	897	1766	1660	889
BALANCE SHEET					
Authorized capital	12,000	12,000	12,000	12,000	12,000
Paid-up capital	6,112	6,112	6,112	6,112	7,029
Total shareholder's equity	17,109	18,450	20,087	20,496	20,572
Deposits	91,781	117,102	116,792	127,990	140,284
Long term liabilities	7,100	8,250	9,225	10,534	11,268
Loans and advances	96,720	102,910	118,291	130,226	152,084
Investments	21,655	25,904	24,655	23,398	21,449
Property plant and equipment	5768.26	6,897.39	7,086.88	5,942.71	5,940.09
Earning asset	(975.07)	(14,191.49)	1499.67	2,236.29	11,799.53
Net current asset	147,148	157,882	172,124	189,563	211,185
Total asset	.90	.88	1.01	1.02	1.08
Current ratio	7.60	7.56	7.57	8.25	9.27
Equity debt ratio	12,000	12,000	12,000	12,000	12,000
CREDIT QUALITY					
Non-performing loans	3071	3697	5157	4263	4096
NPLs to total loans and advances (%)	3.17	3.59	4.36	3.27	2.69

Source: Annual Report of Eastern Bank (2012-2016)

b. Key Financial Ratios

Table 15: Key Financial Ratios: EASTERN BANK LIMITED

Ratios	Formula		Years				
			2012	2013	2014	2015	2016
Liquidity	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.90	0.88	1.01	1.02	1.08
	Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$	0.90	0.88	1.01	1.02	1.08
Financial Leverage	Debt to Equity Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Equity}}$	7.60	7.56	7.57	8.25	9.27
	Times Interest Earned Ratio	$\frac{\text{EBIT}}{\text{Interest Expenses}}$	0.48	0.49	0.43	0.35	0.55

Table 15: Contd.,

	Debt to Asset Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Asset}}$	0.88	0.88	0.88	0.89	0.90
	Capitalization Ratio	$\frac{\text{Long Term Debt}}{\text{Long Term Debt + Preferred Stock}}$	0.29	0.31	0.32	0.34	0.35
Profitability	Return on equity (%)	$\frac{\text{Net Income}}{\text{Total Equity Capital}}$	14.44	14.44	10.93	10.95	12.94
	Return On asset (%)	$\frac{\text{Net Income}}{\text{Total Asset}}$	1.72	1.68	1.28	1.23	1.33
	Net Profit Margin (%)	$\frac{\text{Net Income}}{\text{Sales}}$	9.89	10.24	8.46	8.92	10.26
Risk	Provision for loan losses Ratio (%)	$\frac{\text{Provision for loans and losses}}{\text{Total loans \& } losses}$	1.29	.93	1.52	1.37	1.33
	Loan Ratio (%)	$\frac{\text{Net loan}}{\text{Total Asset}}$	65.73	65.18	68.72	68.70	72.01
Other Financial Ratio	Cost income Ratio (%)	$\frac{\text{Operating expenses}}{\text{Operating Income}}$	36.93	38.31	42.18	47.41	43.99
	Credit Deposit Ratio (%)	$\frac{\text{Loans}}{\text{Deposits}}$	90.50	80.69	95.42	92.53	97.70

Source: Individual Analysis

Analysis

The above table shows the position of Eastern Bank Limited during five years (2012-2016) period. From the table we see that, the current ratio was maintaining a stable trend and it was highest in 2016. As there were no inventories, the quick ratio was same as current ratio. The debt to equity ratio was highest in 2016 and debt to asset ratio was almost same all the year, time interest earned ratio was in fluctuating trend and highest in the year 2016 & capitalization ratio was in an increasing trend. Return on equity and return on assets- both were highest in 2012 and net profit margin was highest in 2016. Provision for loan losses ratio was highest in 2015 and the loan ratio was in an increasing gradually. The cost income ratio was highest in 2015 and credit deposit ratio was highest in 2016.

VI. TRUST BANK LIMITED

Table 16: Brief Profile: TRUST BANK LIMITED

Type	Private (Non-Government)
Formation	**17-Jun-99**
Headquarters	Dhaka, Bangladesh
Key people	General Aziz Ahmed (Chairman)
Products	Banking Services, Consumer Banking, Corporate Banking, SME Banking, Agriculture Banking, Islamic Banking

Source: Official Website

a. Key Financial Indicators-At a Glance (of last five years-in millions)

Table 17: Financial Indicators: TRUST BANK LIMITED

Particulars	2012	2013	2014	2015	2016
Interest income	8,343.78	10,206.65	12,555.12	13,996.77	13,228.57
Interest expense	6,785.13	8767.47	9,674.60	10,076.67	81,162
Net interest income	1,912.98	1,439.18	2,879.52	3,920.10	4,493.91
Non-interest income	930.67	1,148.63	1,508.10	1,787.30	1,702.42
Non-interest expense	374.53	360.13	558.77	602.07	689.17
Net non-interest income	556.1	788.5	1148.5	11885.23	1013.25
BALANCE SHEET					
Authorized capital	10,000	10,000	10,000	10,000	10,000

Table 17: Contd.,

Paid-up capital	3,459.47	3,805.41	4,262.06	4,688.27	5,063.33
Total shareholder's equity	6,512.89	6,865.78	8,128.69	9,512.05	11,175.16
Deposits	82,997.33	102,467.67	125,059.13	150,854.20	173,059.88
Long term liabilities	29,157.5	37,420.93	52,725.86	69,337.71	80,631.78
Loans and advances	54,616.06	79,279.58	106,886.08	130,614.65	141,987.43
Investments	13,622.11	19,023.49	19,352.22	24,262.21	30,739.01
Property plant and equipment	45,494.50	48,378.50	60,364.00	82,755.17	80,207.30
Earning asset	79,626.50	99,026.94	126,283.39	154,765.83	168,285.82
Net current asset	4,593.9	2354.07	2167.17	2325.39	31005
Total asset	4,593.9	3493.8	3604.4	3689.7	5067.4
Current ratio	1.06	1.00	0.45	1.54	1.20
Equity debt ratio	13.62	16.00	16.88	17.94	52.86
CREDIT QUALITY					
Non-performing loans	2,503.84	2,470.36	2,614.76	3,588.48	4,556.10
NPLs to total loans and advances (%)	4.58	3.11	2.44	2.74	3.21

Source: Annual Report of Trust Bank (2012-2016)

b. Key Financial Ratios

Table 18: Key Financial Rations: TRUST BANK LIMITED

Ratios	Formula		Years				
			2012	2013	2014	2015	2016
Liquidity	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	1.06	1.00	0.45	1.54	1.20
	Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$	1.06	1.00	0.45	1.54	1.20
Financial Leverage	Debt to Equity Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Equity}}$	13.62	16.00	16.88	17.94	17.81
	Times Interest Earned Ratio	$\frac{\text{EBIT}}{\text{Interest Expenses}}$	0.10	0.12	0.28	0.30	0.36
	Debt to Asset Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Asset}}$	0.93	0.94	0.94	0.94	0.95
	Capitalization Ratio	$\frac{\text{Long Term Debt}}{\text{Long Term Debt + Preferred Sto}}$	0.31	0.26	0.32	0.27	0.24
Profitability	Return on equity (%)	$\frac{\text{Net Income}}{\text{Total Equity Capital}}$	13.5	4.68	15.34	16.20	9.60
	Return On asset (%)	$\frac{\text{Net Income}}{\text{Total Asset}}$	1.20	0.28	0.89	0.85	0.96
	Net Profit Margin (%)	$\frac{\text{Net Income}}{\text{Sales}}$	9.90	14.38	37.24	37.09	37.95
Risk	Provision for loan losses Ratio (%)	$\frac{\text{Provision for loans and losses}}{\text{Total loans \& losses}}$	0.84	0.67	0.52	0.60	0.69
	Loan Ratio (%)	$\frac{\text{Net loan}}{\text{Total Asset}}$	0.57	0.68	0.74	0.72	0.54
Other Financial Ratio	Cost income Ratio (%)	$\frac{\text{Operating expenses}}{\text{Operating Income}}$	45.94	52.42	45.5	48.18	45.94
	Credit Deposit Ratio (%)	$\frac{\text{Loans}}{\text{Deposits}}$	65.8	77.37	85.46	86.58	82.04

Source: Individual Analysis

Analysis

The above table shows the position of Trust Bank Limited during five years (2012-2016) period. From the table we see that, the current ratio was excellent but it was lowest in 2014.As there were no inventories, the quick ratio was same as current ratio. The debt to equity ratio was highest in 2016 and debt to asset ratio was almost same all the year, time interest earned ratio begins to increase from 2012 and it was maintaining the track. Capitalization ratio was not good at all. Return on equity was lowest in 2013 and other years had wonderful performance. And return on assets showed a better position without 2013. Net profit margin, provision for loan losses ratio and loan ratio- all these ratio's performance was satisfactory. Cost income ratio was highest in 2013 after that it was in fluctuating. Credit deposit ratio was increased over times.

VII. PRIME BANK LIMITED

Table 19: Brief Profile: PRIME BANK LIMITED

Type	Private (Non-Government)
Formation	17-Apr-95
Headquarters	Dhaka, Bangladesh
Key people	Mr. TanjilChowdhury (Chairman)
Products	Banking Services, Consumer Banking, Corporate Banking, SME Banking, Agriculture Banking, Islamic Banking

Source: Official website

a. Key Financial Indicators-At a Glance (of last five years-in millions)

Table 20: Key Financial Indicators: PRIME BANK LIMITED

Particulars	2012	2013	2014	2015	2016
Interest income	22822	22011	18446	15551	13989
Interest expense	17410	17678	15,574	14257	10,676
Net interest income	5412	4333	2872	1294	3313
Non-interest income	1018	813	806	834	814
Non-interest expense	4,941	5,409	5,750	6,166	6,266
Net non-interest income	(3923)	(4596)	(4944)	(5332)	(5452)
BALANCE SHEET					
Authorized capital	25000	25000	25000	25000	25000
Paid-up capital	9,358	10,293	10,293	10,293	10,293
Total shareholder's equity	20,787	23,030	24,461	26,415	25,285
Deposits	182,053	201,907	204,838	194,825	197,934
Long term liabilities	84,827	91,424	104,040	95,170	90,593
Loans and advances	160,890	153,589	147,367	151,865	170,212
Investments	45,862	56,940	72,642	62,733	48,249
Property plant and equipment	4,363	6,407	6,613	6,516	6,590
Earning asset	212,204	211,399	221,521	216,975	221,978
Net current asset	2,735	15,023	21,064	9,641	16,283
Total asset	236,833	243,869	254,912	252,161	256,599
Current ratio	1.02	1.12	1.17	1.07	1.12
Equity debt ratio	9.62	10.43	10.61	11.70	10.93
CREDIT QUALITY					
Non-performing loans	6,168	7,815	11,215	11,883	10,139
NPLs to total loans and advances (%)	3.83	5.09	7.61	7.82	5.96

Source: Annual Report of Prime Bank (2012-2016)

b. Key Financial Ratios

Table 21: Key Financial Ratios: PRIME BANK LIMITED

Ratios	Formula		Years 2012	2013	2014	2015	2016
Liquidity	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	1.02	1.12	1.17	1.07	1.12
	Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$	1.01	1.12	1.17	1.07	1.12
Financial Leverage	Debt to Equity Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Equity}}$	10.39	9.59	9.42	8.54	9.15
	Times Interest Earned Ratio	$\frac{\text{EBIT}}{\text{Interest Expenses}}$	1.32	1.21	1.23	1.21	1.25
	Debt to Asset Ratio (times)	$\frac{\text{Total Debt}}{\text{Total Asset}}$	0.91	0.91	0.90	0.89	0.90
	Capitalization Ratio	$\frac{\text{Long Term Debt}}{\text{Long Term Debt} + \text{Preferred Sto}}$	0.80	0.79	0.85	0.78	0.78
Profitability	Return on equity (%)	$\frac{\text{Net Income}}{\text{Total Equity Capital}}$	13.53	8.35	10.08	8.41	8.49
	Return On asset (%)	$\frac{\text{Net Income}}{\text{Total Asset}}$	1.24	0.76	0.96	0.84	0.86
	Net Profit Margin (%)	$\frac{\text{Net Income}}{\text{Sales}}$	8.33	6.04	9.42	9.60	10.68
Risk	Provision for loan losses Ratio (%)	$\frac{\text{Provision for loans and losses}}{\text{Total loans \& } losses}$	2.00	2.62	1.95	2.07	2.00
	Loan Ratio (%)	$\frac{\text{Net loan}}{\text{Total Asset}}$	68.0	63.0	57.81	60.22	66.33
Other Financial Ratio	Cost income Ratio (%)	$\frac{\text{Operating expenses}}{\text{Operating Income}}$	36.62	41.98	48.29	51.08	52.11
	Credit Deposit Ratio (%)	$\frac{\text{Loans}}{\text{Deposits}}$	0.88	0.76	0.71	0.77	0.85

Source: Individual Analysis

Analysis

The above table shows the position of Prime Bank Limited during five years (2012-2016) period. From the table we see that, the current ratio was in a stable position and it was highest in 2014. As there were no inventories, the quick ratio was the same as the current ratio. The debt to equity ratio was highest in 2012 and debt to asset ratio was almost same all the year, time interest earned ratio was also almost same all the year. And capitalization ratio was in a fluctuating trend. Return on equity and return on asset-both were highest in the year 2012 then it was fluctuating and net profit margin was highest in 2016 & maintaining an increasing trend from 2013. Provision for loan losses ratio was in fluctuating trend. The loan ratio was highest in the year 2012. The cost income ratio was maintaining an increasing trend and credit deposit ratio was highest in 2012 and then in decreasing trend and again from 2015 it began to increase.

5. OVERALL FINANCIAL PERFORMANCE OF SEVEN SELECTED COMMERCIAL BANKS (BASED ON 5 YEARS DATA)

Table 22: Overall Financial Performance of 07 Selected Commercial Banks

Ratios	Bank Asia	BRAC Bank	UCB	Dhaka Bank	Eastern Bank	Trust Bank	Prime Bank
Liquidity	Stable	Stable	Increasing	Decreasing	Stable	Increasing	Stable
Financial Leverage	Increasing	Stable	Increasing	Good	Increasing	Good	Good
Profitability	Decreasing	Good	Good	Decreasing	Good	Good	Good
Risk	Increasing	Good	Increasing	Increasing	Increasing	Good	Increasing
Others	Increasing	Good	Increasing	Increasing	Increasing	Increasing	Increasing

Source: Individual Analysis

6. CREDIT RISK ANALYSIS OF THESE BANKS

- **Bank Asia:** If we see the liquidity and profitability position of this bank, the bank is not in a good position. That means the bank have not enough profit which indicates their interest earned on the asset is not in a good position. And in case of risk ratios which measured the asset quality is also increasing that means the bank's loan portfolio is not good. NPL to Total Loans of this bank is increasing as well as their cost income ratio which indicates the bank's credit risk is increasing day by day. So we can conclude that in this bank a higher quality of credit risk is involved which indicates a threat for the bank.

- **BRAC Bank:** If we see the liquidity and profitability position of this bank, the bank is in good position. That means the bank have enough profit which indicates their interest earned on the asset is in good position. In case of risk ratios which measured the asset quality is in a good position. We also see their NPL to Total Loans is in a stable position as well as the cost income ratio is decreasing which indicates the bank's credit risk is stable. So we can conclude that the bank is in stable credit risk position.

- **UCB:** If we see the liquidity and profitability position of this bank, the bank is in good position. That means the bank have enough profit which indicates their interest earned on the asset is in good position. But in case of risk ratios which measured the asset quality is increasing that means the bank's loan portfolio is not also good. We also see their NPL to Total Loans is increasing day by day as well as their cost income ratio which indicates the bank's credit risk is increasing day by day. So we can conclude that the bank is in moderate credit risk situation as their profit is in good position but increasing trend of NPL can create a big problem for the bank in future.

- **Dhaka Bank:** Although it's financial ratios are good but its liquidity and profitability is decreasing which indicates the bank is become unable to collect its interest earned on its assets as its profit is decreasing. The increasing trend of cost income ratio also a reason for that. Risk ratios are also increasing trend but in the last year it was decreased. NPL to Total Loan is decreasing which indicates their credit quality is increasing.So although their profit is decreasing but the bank credit quality is in good position. For which they can be faced lower credit risk. That means the bank has lower credit risk.

- **Eastern Bank:** If we see the liquidity and profitability position of this bank, the bank is in good position. That means the bank have enough profit which indicates their interest earned on the asset is in good position.But in case of risk ratios which measured the asset quality is increasing that means the bank's loan portfolio is not good. We also see their NPL to Total Loans is increasing day by day as well as their cost income ratio which indicates the bank credit risk is increasing day by day.So we can conclude that the bank is in moderate credit risk situation as their profit is in good position but increasing trend of NPL can create a big problem for the bank in future.
- **Trust Bank:** The liquidity, profitability, financial leverage and risk ratios are in good position of this bank.But it's NPL to Total Loan ratio is increasing for which cost income ratio is also increasing. So decreasing in credit quality can decrease profit of the bank also although the bank profitability is good enough. The bank has lower credit risk.
- **Prime Bank:** The bank Liquidity, profitability, and leverage ratio is in good position. But its risk ratio is increasing as well as its NPL to Total Loan. But in the year 2016 it decreased slightly. But if we see overall situation the bank has lower credit risk.

7. RECOMMENDATIONS

- Lending shall be in acquiescence with bank's individual policy, not contradictory with the central bank's guidelines, government regulations, laws of land and circulars of competent authorities.
- The Bank shall behave ethically and transparently in all credit activities. Credit officers/managers shall be proactive in identifying, managing and communicating during the entire credit approval process and subsequent recovery ensuring strong ethics and transparency.
- Credit to be stretched in those businesses, which the Bank comprehends well. The purpose must be defined and legitimate. Bank shall avoid financing to fabricate business which does not have physical existence.
- Risk strategy approved by the board of directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk.
- Credit extension shall focus on association with the customers ensuring safe return of the investment with a desired level of profit and contribution to economic growth of the country.
- Banks are encouraged to develop and utilize an internal risk rating system in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities.
- Banks should identify and manage credit risk inherent in all products and activities. Banks should ensure that the risks of products and activities new to them are subject to adequate risk management procedures and controls before being introduced or undertaken, and approved in advance by the board of directors or its appropriate committee.
- Bank shall build and maintain a differentiated credit portfolio matching the standard lending cap approved by bank's management/Board of Directors.
- Focus to a limited number of borrowers or some specific sectors shall be avoided i.e not to put all eggs in one basket.

- Bank will consider short term trade financing or working capital support for manufacturing concerns carrying adequate self-liquidating cash flow.
- Bank will also accommodate Term Loans to the enterprises engaged in manufacturing, assembling, processing of goods and commodities for consumption in domestic as well as international market, upon proper credit risk assessment supported by satisfactory cash flow forecast.
- For lodging of any financing (project / commercial) borrowers' Equity strength will be considered with due importance. Ideally, Bank's contribution in the form of Term Loan shall not be above 70% of the project cost or fixed investment while for working capital support, bank's participation in general shall be within 50% of total requirement.
- Before extension of any credit, customer's character for integrity and willingness to repay the loan will be thoroughly analyzed. Customer's capacity and ability to repay will be verified.
- Alternative repayment sources will be identified and there shall be adequate fall back arrangement (security) to protect bank's interest and ensure recovery of the credit in case of default.
- The Bank shall not accommodate any financing to the business/sectors which is in conflict with national policy and detrimental to environment.
- Banks must have information systems and analytical techniques that enable management to measure the credit risk inherent in all on- and off-balance sheet activities.
- Banks should take into consideration potential future changes in economic conditions when assessing individual credits and their credit portfolios, and should assess their credit risk exposures under stressful conditions.

8. CONCLUSION

The vicissitudes in worldwide economy, industry demand, increased competition, government policy, central bank regulations & guidelines and above all bank's own understandings in operation of business all are imperative elements for weighing risk. Banking business by nature is very vibrant. Banking industries have a great contribution in our economic growth. And at the same time, credit risks of banking industry have a negative impact on economic growth. So, appropriate assessment of risks at the time of approval, ensuring measures of mitigation thereof and subsequent handling of the credit properly may ensure a healthy portfolio and sustainable growth in business. Therefore, it is absolutely necessary to frame a prudent Policy and Guidelines in compliance with regulatory requirement and to follow the same in taking any credit decision. The bank's all credit related activities i.e. product marketing, proposal processing, risk analysis, appraisal, approval, sanction, documentation, disbursement, monitoring, recovery, reporting, record keeping etc. shall be conducted in line with the policy & guidelines.

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