



**Internship Report On**  
**Credit Risk Assessment of Bank Asia Limited**

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**Submission date: 05 December, 2023**

**Internship Report On**

**Credit risk management's effect on banks' profitability:**

**A Study on Bank Asia Limited**

## Letter of Transmittal

16 October, 2018

Nusrat Farzana  
Asst. Professor  
Department of Finance

School of Business & Economics  
United International University

### **Subject: Submission of Internship Report on Credit Risk Assessment of Bank Asia Limited**

Dear Madam,

It gives me great pleasure to hand in the internship report, titled Credit Risk Assessment of Bank Asia Limited, which was given to me as a requirement toward the fulfillment of the Bachelor of Business Administration (BBA) degree.

Working for a prestigious company in Bangladesh and acquiring in-depth knowledge of various fields is an honor and a luxury for me. While gathering data for the project, I ran into some challenges. In addition, the course has allowed me to connect a wealth of academic and financial knowledge with real-world applications. I've learned a lot, and I understand how the bank functions in its fundamentals. Making this internship report, which really contributed, has always been something I've appreciated to my comprehension of the significance and fundamentals of practical knowledge. I did my absolute best to make this report concise and informative.

I owe you a debt of gratitude for your kind assistance and encouragement throughout my quest.

If you would kindly accept the report, I would be very grateful.

Sincerely Yours,

Bedotryee Chakraborty

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United International University

## **Bonafide Certificate**

Verified that the study conducted for this internship report, "Credit Risk Assessment of Bank Asia Limited" was legitimately completed by Ms. Bedotryee Chakraborty, who worked under my direction. Furthermore, I certify that, to the best of my knowledge, the work presented here has not been included in any project report or dissertation that has served as the foundation for the previous awarding of a degree to this or any other applicant

.....

Nusrat Farzana

Asst. Professor

Department of Finance

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## **Acknowledgment**

I'd like to start by expressing my profound gratitude to the Almighty, who is the universe's greatest authority, for enabling me to learn throughout my life.

Then, I want to express my sincere gratitude to my Supervisor, Nusrat Farzana, ma'am for her guidance and cooperation in helping me create the entire report. Without her support, the report would not have been finished. Additionally, I would like to extend my sincere gratitude to Bank Asia Limited's Gulshan Branch for allowing me to complete my internship program there. Additionally, I owe a debt of gratitude to Md. Moinul Islam, Manager of Operations for the Gulshan Branch, for his unceasing assistance, support, and direction throughout my employment. I would like to express my heartiest thanks to Rehana Kabir Seeme, Junior Officer, for her guidance to know about the impact of Credit Risk Management on Bank Asias profitability

They are all completely behind me. They gave me every piece of information I requested and included me in their actual job. I now have real knowledge and experience in banking activities after completing my internship.

Additionally, I want to express my gratitude to all Bank Asia Limited, Gulshan Branch employees for their help, kindness, and warmth. There was a superb working atmosphere and tidy, clean workplace space. I must express my sincere appreciation to United International University, for giving me the chance to complete my BBA degree, gain real-world experience, and broaden my knowledge.

## **Executive Summary**

Credit risk stands out as a significant concern for commercial banks, arising from borrowers' failure to make regular loan payments due to either inability or unwillingness to adhere to the agreed terms. Genuine threat lies in the portfolio's performance which deviates from its anticipated value. A bank's book value is directly impacted by this risk; higher credit risks increase the chances of a bank becoming insolvent. More than 50% of risk factors in banks and financial institutions stem from credit risks alone worldwide. As a matter of fact, managing credit risk effectively has become a foremost task for financial institutions. Recognizing, assessing, alleviating, aligning, and overseeing are involved in credit risk exposures to ensure financial institution management is efficient.

The report is based on a variety of data sources, including primary sources such as the three-month internship at Bank Asia Ltd. branch in Gulshan, interviews with the branch's officers and staff members of the bank, and work experience at several desks within the branch of myself. Official website, the annual reports, the operating manual for credit risk management, and various websites, published articles were used as secondary source.

The report's findings show that it is crucial to a bank's profitability to maintain effective credit risk management. From the study it can be seen that Bank Asia Limited has implemented effective credit risk management practices, which have significant contribution to its profitability. Limitations are also highlighted in the study, which also includes difficulty banks face in sharing insider knowledge about them.

The report provides valuable insights into the effectiveness of credit risk management practices through the statistical and financial analyses. The statistical analysis methods used here includes analysis of trends, ratio evaluation, analysis of multiple regressions, and testing hypothesis to get the idea. Financial analysis was also conducted by using important financial analysis.

In a nut shell, this report provides a comprehensive analysis of the importance of effective credit risk management in the banking industry, which was specifically focused on Bank Asia Limited. Findings of the report can be used by other banks to improve their credit risk management practices and they could also enhance their profitability. The report's limitations and recommendations for future research provide a valuable contribution to the field of banking and finance.

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# Chapter 1

## Overview

Risk is the possibility of experiencing damage or loss when in danger. Risks typically relate to one's physical well-being or job security. In the world of finance and investing, risk is often used to refer to the likelihood that an investment or outcome will not yield the anticipated return or results. The possibility of losing the entire initial investment or only a portion of it is known as risk. Usually, risk is measured by accounting for previous decisions and outcomes. Risk comes in a variety of forms, such as credit, market, and operational risk. Credit risk is one of them. While there are many risks that banks and other financial institutions (FIs) must deal with, credit risk accounts for at least half of all risks in the world. Therefore, in order to lower the losses, more management is needed.

Credit risk is the possibility of losing money due to a borrower's inability to make loan payments of any sort. Credit risk management is the art of limiting losses by assessing a bank's capital and loan loss reserves at any given time. It has long been a challenging process for financial organizations. In order to comply with more stringent regulations and cover the rising capital expenses associated with credit risk, numerous banks are modernizing the ways in which they handle credit risk. Institutions are being foolish, meanwhile, if they merely regard this as a compliance exercise. Additionally, there's an opportunity to acquire a competitive edge and dramatically improve overall performance with improved credit risk management.

One of the top banks in Bangladesh, Bank Asia, handles its operations under a separate department that is in charge of "Credit Risk Management."

### 1.1 Overview of the Research

This research study serves as a means of acknowledging the effectiveness of Bangladeshi banks in managing credit risk as well as a decisive resource for research into how CRM practices contribute to the profitability and long-term viability of those institutions. My academic supervisor "Nusrat Farzana" constantly monitors my progress and suggests any actions done with the intention of correcting the mistakes occurring during my study in particular areas. I work closely under her direct supervision. I gathered secondary information about Bank Asia Ltd.'s financial standing from 2017 to 2021 in order to do my research.

## **1.2 Rationale of the Study**

As I completed my degree program at United International University's Department of Finance, I started working as an intern at Bank Asia Limited. My internship report examines the impact of credit risk management on banks' profitability through an analysis of Bank Asia Limited. The supervisor of my department has recommended that I focus on credit risk management.

## **1.3 The Study's Objective**

This study's primary goal is to investigate how effectively "Bank Asia Ltd.," manages credit risk across the board. Additionally, as stated below Other minor and significant objectives for CRM of Banks are also listed below.

- To discover how well Bank Asia Ltd., in particular, implements credit risk management on a constant basis; to comprehend the importance and advantages of CRM from the perspective of banking firms.
- To ascertain the standard credit risk management process that banking institutions employ.
- To closely investigate the impact that CRM techniques have on banks' profitability and sustainability.
- To enumerate the responsibilities of every branch of the CRM department.
- To investigate the methods banks employ for making decisions before granting loans.
- One can discover how a bank obtains loans from its customers.
- Determine a bank's approach by classifying the loan type in compliance with Central Bank criteria.
- Make sure to account for the classified loan in order to understand how banks run.
- To discover more about their process for approving loans.
- To investigate banks' efforts to collect defaulted debts.
- To provide some suggestions for improving their CRM practices.
- To assess Bank Asia Ltd.'s credit risk management strategy.

## **1.4 The study's methodology**

### **Research Type:**

This is a descriptive study that is pertinent to an empirical investigation since it calls for analysis of the effective management of bank credit risk as well as the understanding of the fundamental principles underlying how CRM impacts banks' profitability and long-term viability.

## Variety of Data:

- **Primary Sources:** My three-month internship at the Bank Asia Ltd. branch in Gulshan served as the basis for the most of the information in this report.
  - **Interview:** The majority of the information in this report comes from my three-month internship at the Gulshan branch of Bank Asia Ltd.
  - **Work experience:** Working at multiple desks in the branch allowed me to obtain some information for the report.
  
- **Secondary Sources:** The data is derived from the official website, the annual report, the credit risk management operational manual, the annual report of Bank Asia Ltd., and a number of other websites, articles that have been published, national newspapers, etc.
  - **Data analysis methods and tools:** Following the collection of the required data, I do the required data analyses, which comprise statistical and financial analysis, as indicated below:
  - **Statistical analysis tools:** The following statistical methods were utilized to determine correlations between the many variables that were part of the research:
    - Analysis of trends
    - Ratio Evaluation
    - Analysis of multiple regression
    - Testing hypothesis.
  
  - **Financial Analysis:** To determine the effectiveness of CRM, I do a financial analysis using crucial financial analysis.

## 1.5 The study's constraints

The following issues I encountered while writing this report could be regarded as the study's limitations:

- Banks face difficulty in sharing insider knowledge about them.
- As an intern, I don't fully understand the key phrases used in the banking industry.
- I used data from 2017 to 2021, thus I can't speak to CRM's overall effectiveness based on this.
- Time is limited
- Data access restrictions.
- Many areas of the report are not covered in depth due to time constraints and to preserve organizational confidentiality.
- Financial statements, for the most part, merely show the figures and their breakdown without explaining why they are there.
- Some shortcomings may be caused by our lack of practical knowledge.

## Chapter 2

### Framework of Bank Asia Limited

Bank Asia Limited has a framework that encompasses its structure offered products and services corporate governance practices and operational procedures. However please note that specific details regarding the banks framework may evolve over time. To obtain the information it is advisable to refer to their official website or directly get in touch, with the bank. Nevertheless here is an overview is provided of what Bank Asia Limited framework might include-

<b>YEAR</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>From the Balance Sheet</b>					<b>(Million Taka)</b>
<b>Authorized Capital</b>	56,000.00	56,000.00	27,000.00	27,000.00	6,000.00
<b>Paid-up Capital</b>	12,847.88	12,847.88	12,847.88	3,874.48	3,874.48
<b>Reserve and Surplus</b>	-23,939.89	-17,038.66	16,100.10	11,066.94	3,892.20
<b>Shareholders' Equity</b>	14,907.09	12,808.32	26,947.08	14,013.92	6,939.18
<b>Fixed Assets</b>	449.69	429.03	524.23	689.65	734.89
<b>Total Assets</b>	198,855.67	204,747.63	184,178.36	191,118.50	157,000.37
<b>Deposits</b>	145,181.24	168,070.98	149,167.23	139,987.06	134,493.45
<b>Long- term Debt</b>	2,148.15	2625.16	2,488.94	2632.97	2,980.50
<b>Loans and Advances</b>	149,568.59	144,882.80	128,887.01	89,492.85	109,528.44
<b>Placement &amp; Investment</b>	38,599.23	55209.42	49,677.93	37999.33	33,584.88
<b>From the Income Statement</b>					<b>(Million Taka)</b>
<b>Gross Income</b>	9,615.17	10932.41	11,614.96	15213.56	16,338.74
<b>Gross Expenditure</b>	10,963.62	11,941.56	14,179.21	16,437.94	15,068.54
<b>Profit before Tax</b>	361.55	92.85	-2,567.25	-1224.38	1,370.20

<b>Profit after Tax</b>	-6,743.69	-13,930.40	-3,240.36	-1,200.16	-538.53
<b>Tax Paid (Cumulative)</b>	8,068.46	7018.05	7,079.44	7894.26	7,718.92
<b>Others</b>					<b>(Million Taka)</b>
<b>Import Business</b>	39135.9	30,480.20	32304.9	38,328.80	42,547.20
<b>Export Business</b>	22,385.70	23,425.80	21,852.70	26,611.30	30,548.30
<b>Number of Branches</b>	67.00	67.00	67.00	67.00	67.00
<b>Number of Employees</b>	2,113.00	2,232.00	2,173.00	2,139.00	2,245.00
					<b>(Million Taka)</b>
<b>Deposit per Employee</b>	67.08	75.14	69.50	63.55	61.70
<b>Advance per Employee</b>	69.92	63.26	58.65	39.06	52.82
<b>Profit before Tax per Employee</b>	0.18	0.06	-1.10	-0.59	0.79

**Table 1: Yearly progression of Bank Asia**

## 2.1 Organizational Structure

- **Board of Directors:** This esteemed body holds the decision making authority within the bank. They are responsible for formulating policies and overseeing all aspects of the banks operations.
- **Senior Management:** Comprising individuals like the Managing Director and other top executives who oversee departments and functions within the bank.
- **Branch Network:** Bank Asia Limited may have a network of branches and ATM locations spread throughout Bangladesh to cater to its customer's needs.

## 2.2 Products and Services

- **Retail Banking:** This branch is responsible for offering consumer-specific services such credit cards, current accounts, savings accounts, fixed deposits, and personal loans.
- **Corporate Banking:** Designed specifically to meet businesses requirements by offering services, like business loans, trade finance facilities and treasury services.

- **Investment Banking:** Engaged in delivering advisory services related to capital markets activities including mergers & acquisitions.

## 2.3 Corporate Governance

- **Ensuring Compliance, with Regulatory Bodies:** we make sure to follow the regulations established by the Bangladesh Bank and other regulatory authorities.
- **Managing Risks:** We develop and put into action plans to deal with various risks, including market, operational, and credit risks.
- **Internal Controls:** Ensuring internal controls are set up in order to stop misconduct and fraud.
- **Shareholders' Meetings:** Holding regular meetings with shareholders to discuss the bank's performance and future plans.

## 2.4 Operational Procedures

- **Customer Service:** Providing excellent customer service through various channels, including branches, call centers, and online platforms.
- **Credit Evaluation:** Assessing the creditworthiness of borrowers before granting loans.
- **Know Your Customer (KYC) and Anti-Money Laundering (AML) Compliance:** Following KYC and AML guidelines to stop financial crime and money laundering.
- **Financial Reporting:** Preparing financial statements and reports to communicate the bank's financial health to stakeholders.

## 2.5 A quick look at Bank Asia

<b>Registered Name</b>	<b>Bank Asia</b>
<b>The incorporation date</b>	<b>27-Nov-99</b>
<b>Date of Inauguration of Operation</b>	<b>27-Nov-99</b>
<b>Principal office</b>	<b>Rangs Tower, 68 Purana Paltan, Dhaka 1000, Bangladesh</b>
<b>Number of Branches</b>	<b>126+</b>
<b>Service Provided</b>	<b>Retail Banking, Corporate Banking, Islamic Banking, SME Banking, Agent Banking</b>
<b>Authorized capital in BDT* (mn)</b>	<b>15000</b>
<b>Paid up capital in BDT* (mn)</b>	<b>11659.07</b>

<b>Reserve / Surplus (mn)</b>	<b>16804.76</b>
<b>Banking software used</b>	<b>Istella</b>
<b>Technology used</b>	<b>HTML5 , jQuery , and Google Analytics</b>
<b>SWIFT</b>	<b>BALBDDH</b>
<b>Email</b>	<b>bankasia@bankasia.com.bd</b>
<b>Website</b>	<b>https://www.bankasia-bd.com/</b>
<b>Telephone</b>	<b>+880 2 7110042, 7110062, 7110147</b>
<b>Fax</b>	<b>+880 2 7175524</b>

**Table 2: Bank Asia at a glance**

## **Chapter 3**

### **Credit Risk Practices of Bank Asia Limited**

Credit risk management policies are a must for any financial institution. They should include risk identification, risk assessment, risk grading, and legal considerations to gauge credit risk. To create a framework for credit risk management, senior management at financial institutions should create and implement credit policies and procedures as part of credit risk management and obtain board approval. These policies and procedures should then be interpreted as a lending scale for various loan categories, such as corporate, commercial, and SME loans. Examples of credit risk policies are as follows: ⇐

- Give a thorough and structured credit review and appraisal procedure.
- Provide risk assessment, quantification, tracking, and management.
- Establish target markets, risk acceptance standards, authorization for credit approval, processes for loan generation and maintenance, and portfolio management rules.
- Every officer involved in credit risk management is well-versed in the methods used by institutions and the process for approving credit.
- They must also keep in touch with the branch managing officers.

A separate division for Corporate, SME, Retail, and Credit Cards has been formed, and these divisions are tasked with the duties of maintaining effective customer relationships, marketing credit products, and investigating new business opportunities, among other things. In order to ensure transparency in the operations throughout the entire credit year, four teams have been established by Bank Asia Limited authority in accordance with Bangladesh Bank guidelines. These teams are:

- **Credit Approval Team**
- **Asset Operations Department**
- **Recovery Unit**
- **Impaired Asset Management**

The following are some of Bank Asia Limited's credit approval requirements: I. Head of Credit, Wholesale Banking & Medium Business; II. Project viability from organizational, technical, commercial, financial, and economic perspectives; and III. Approval Authorities of Individual and Corporate Loans. The approval authority of an individual loan is primarily carried out by the credit officer in a branch.

- Both technically sound and environmentally friendly, the project must be.
- When using borrowed knowledge, technology transfer needs to be made sure of.
- Buildings ought to be thoughtfully designed and built.
- The product's market potential and prospects must be completely guaranteed at costs that are competitive.
- A fair debt-to-equity ratio should exist, as decided by the Bank based on each specific circumstance.
- A minimum of 2.5 times the debt service coverage ratio is required at the optimal level of production.
- It is ideal for the IRR to be at least 20%.

In Bank Asia, some general guidelines for loans and advances are as follows:

- The total amount of loans and advances cannot exceed 65% of the customer's deposit or the bank's net value.
- Eighty percent of the deposit may be loaned in the event of FDR.
- As per the guidelines set by the government and central bank, half of the total loans and advances, which are listed above, should go to the small industry sector, while the other half should go to the commercial sector.
- The commercial sector will not be eligible for any term loans.
- There won't be many exceptions, and they will need the Executive
- Credit Line Proposal: Based on branch valuation, ICRR ratings, and survey report, a credit line proposal is made.
- In addition, the credit line proposal includes nearly all of the company's and clients' information, including the borrower's details, address, constitution, date of establishment, sponsor, introducers, capital structure, business categories, CIB report, stock, information from other banks, SWOT analysis, and so forth.
- The branch manager will provide feedback and suggestions regarding the company and customer in the credit line proposal.
- The branch manager's judgment is very important in the loan sanctioning process.



After receiving a credit line proposal, Bank Asia Limited will wait for approval from Bangladesh Bank. Bangladesh Bank will assess the client's and business's overall information and determine whether all requirements and regulations have been met. In addition, Bangladesh Bank will look up or obtain information about the client and business from other banks. Following the completion of all necessary procedures, Bangladesh Bank will approve loans and advances. Loan disbursement will occur only after the Board of Directors or Head Office has approved or allowed the sanctioning of the loans. After receiving approval from the Head Office branch, money will be paid to clients or businesses. The Credit Administration Department has the final say over loan approvals.

Credit monitoring at Bank Asia Bank Asia Limited is based on the belief that loans and advances granted in accordance with the law will result in fewer debts that fail to be repaid.

- At the Head Office, a distinct Corporate Division has been established and given the responsibility of upholding efficient customer relations, marketing credit products, investigating new business prospects, and so forth.
- Furthermore, since the Bank's founding, credit approval, administration, monitoring, and recovery activities have been established at Head Office. These operations are tasked with marketing and evaluating credit products, upholding positive customer relations, and investigating new business opportunities.
- To handle mostly documentation facilities, another division called the Credit Administration Division (CAD) has also been established.
- The Bank has divided its marketing, approval, and monitoring/recovery departments in accordance with Bangladesh Bank regulations.
- Borrower risk analysis, the customer's past performance, the security of the proposed credit facility, the borrower's reputation in the market, and other factors are all included in credit risk management.

Offering customers an Offer Letter or Banking Arrangement letter outlining the total payment mood and loan details during loan disbursement is part of Bank Asia Limited's credit collection process. If a customer defaults on a payment or doesn't fulfill the terms agreed upon, the account goes into collections, and the collection department is in charge of collecting past-due amounts from delinquent customers through four stages: servicing, locating, collecting, and cancellation & write-off.

Days Past Due (DPD), Collection Action, Reminder Letters, Group Visits, Follow-up over Phone, Warning on Legal Action, Call Up Loan, Final Reminder & Serve Legal Notice, Legal Proceedings begin, Telephone calls/Legal proceedings continue, Collection effort continues by officer and agent, and Letter to various banks/Associations are some of the collection steps that might be taken. The recovery unit usually does not take legal action until the loan becomes a bad loss and they believe that borrowers will default.

Demand Loan, Term Loan up to 5 years, Term Loan over 5 years, Sub Standard, Doubtful, Bad & Loss, Overdue Period, and Short Term Agricultural & Micro Credit are among the loan classifications. General provisions have to be evaluated and raised as soon as accounts

are classified as SMA, SS, DF, and BL, with the specific provision rose being at least the minimum amount required by Bangladesh Bank.

Particular provisions are made against a particular account, or any part of it, that is judged uncollectible due to known circumstances, eligible security values, and interest suspense. The percentage of provisions that are substandard is 20%; the percentage of doubtful and bad/loss provisions is 50%; and the percentage of provisions for short-term agricultural and microcredits is 1%.

## Chapter 4

### CRM's effect on banks' profitability- (Statistical Analysis)

#### 4.1 Examining Trends

Trend analysis is a statistical technique that forecasts future actions based on past actions, utilizing past trends to predict future movements of a given variable. This study paper covers trends for credit-related criteria such as total loan disbursements, the status of unclassified (Standard) and classified loans (NPL amount), among other things.

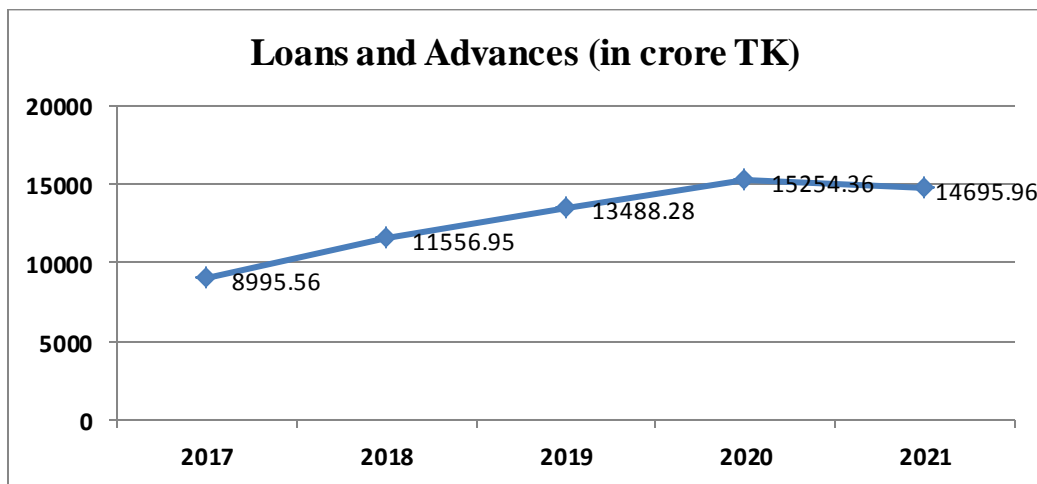
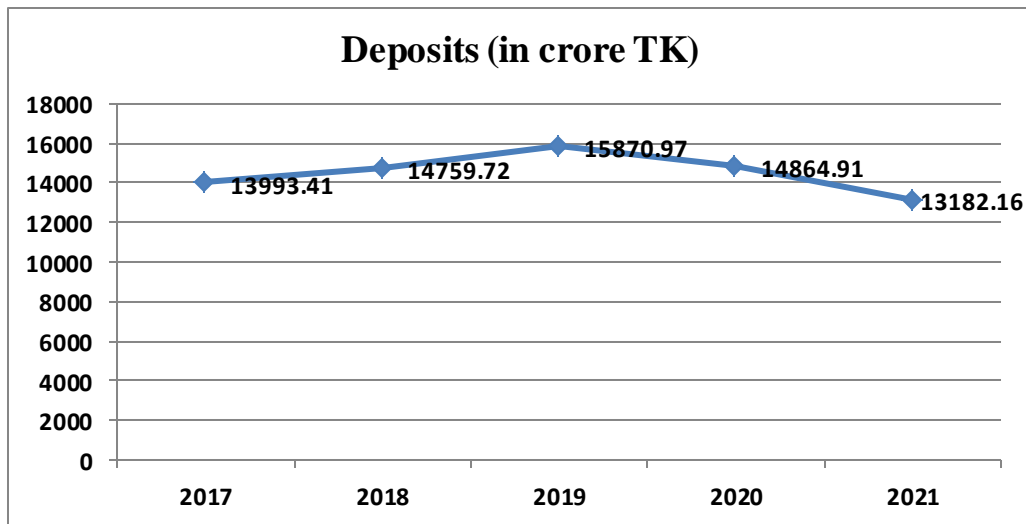


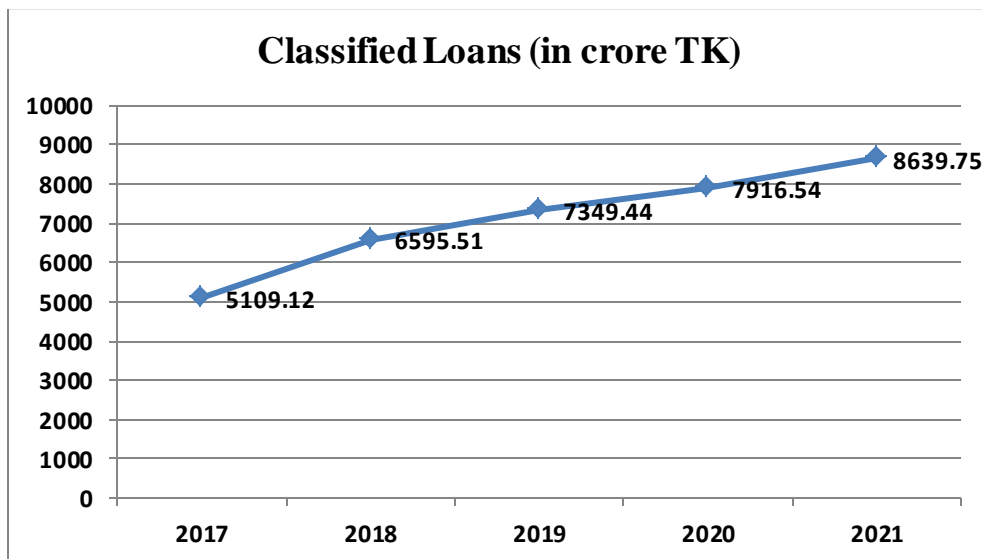
Figure 1: Loans and Advances

From the graphical representation, it can be seen that from 2017 to 2020 it was increasing but in 2021 it decreased from 15254.36 to 14695.96. Which was lower than the year before? This indicates that they are succeeding in lending out money, which is the primary source of profit for banks.



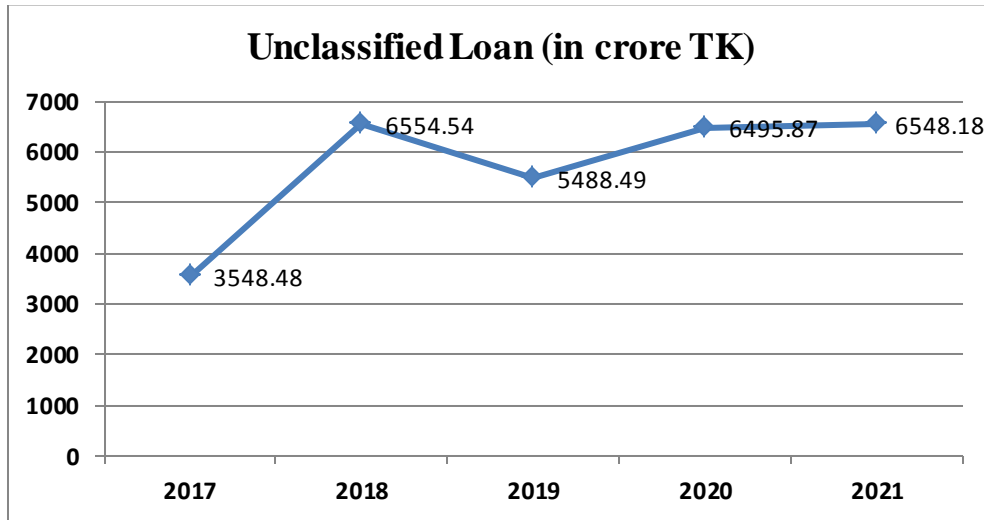
**Figure 2: Deposits**

Above graph shows that first 3 years that means from 2017 to 2019 they were in a strong position as there trend was in upward but from 2020 it became downward. Due to Covid-19 there were fewer deposits than usual. People started to deposit less and withdraw more.



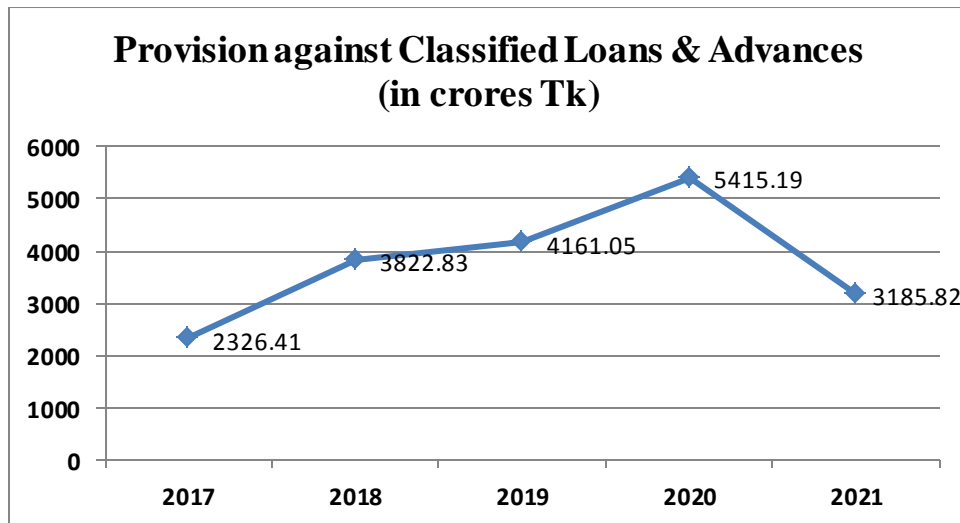
**Figure 3: Classified Loans**

According to above graph, there is a constant growth in classified loan from year 2017 to 2021. There NPL amount is very high during those years. It means there is inefficiency during those years.



**Figure 4: Unclassified Loan**

From the graphical representation it can be seen that the unclassified loans trend is fluctuating during this five years. As high amount of NPL shows CRM inefficiency. However, this graph also demonstrates that the significant NPL is a result of the substantial loan disbursement amount was larger in 2021 than previous years.



**Figure 5: Provision against Classified Loans and Advances**

Above graphical representation shows there is an increasing trend in the provision for classified loans and advances of Bank Asia from the year 2017 to 2020 in which it went from 2326.41 corers to 5415.19 corers but in the next year 2021 it became almost half of the year 2020 and became 3185.82.

## 4.2 Model Specification and Sample Selection

The overall goal of this specific study is to find out how credit risk management affects a bank's profitability. To do this, a multiple regression analysis was performed using the variables to determine the relationship between two elements, of which one is a dependent variable and five are independent variables.

The following variables were taken into consideration for the analysis: return on asset (dependent variable), non-performing loan ratio, loan loss provision, capital adequacy ratio, interest margin cover ratio, and credit deposit ratio (independent variables). The sample data was taken from Bank Asia's annual report for the years 2011 through 2021.

$$A + b1 * NPLR + b2 * LLPR + b3 * CAR + b4 * IMCR + b5 * CDR = ROA$$

Variable	Description
<b>ROA</b> (Return on Asset)	It is a useful indication of banks' profitability and is calculated as the net operating profit (NOP) that a firm makes from its activities over a specific period of time divided by the entire amount of its assets
<b>NPLR</b> (Non-Performing Loan Ratio)	NPLR, or nonperforming loan to total loan ratio, is a useful metric for credit risk management.
<b>LLPR</b> (Loan Loss Provision ratio)	The ratio of the provision amount to the total amount of the classified loan serves as a gauge for the effectiveness of credit risk management.
<b>CAR</b> (Capital Adequacy Ratio)	This index is used by regulatory bodies to calculate the ideal capital ratio that a bank needs to be able to take on risks that could jeopardize deposit funds or the bank itself.
<b>IMCR</b> (Interest margin cover ratio)	One financial indicator that assesses a company's capacity to pay interest on its debt on time is the interest coverage ratio.

**CDR  
(Credit-deposit  
Ratio)**

It represents the proportion of a bank's core funds that are allocated to lending, which is the primary activity of a bank, divided by the total amount of deposits that the bank has mobilized.

**Table 3: Model Variable Description**

### 4.3 Data Input

<b>Year</b>	<b>ROA</b>	<b>NPLR</b>	<b>LLPR</b>	<b>CAR</b>	<b>IMCR</b>	<b>CDR</b>
<b>2011</b>	1.3	6.11	33.23	12.02	137.08	71.07
<b>2012</b>	1.41	5.62	37.06	13.48	135.79	84.81
<b>2013</b>	1.24	5.38	32.8	9.41	95.15	94.08
<b>2014</b>	1.4	5.09	35.33	10.13	139.76	90.8
<b>2015</b>	0.03	8.22	24.76	10.05	110.17	98.02
<b>2016</b>	-0.4	28.75	37.73	-1.66	61.62	81.36
<b>2017</b>	-0.67	57.15	45.54	-29.08	-50.36	63.88
<b>2018</b>	-1.72	51.09	58.09	-7.55	-115.46	86.93
<b>2019</b>	-7.49	54.13	63.05	-15.59	-39.29	85.33
<b>2020</b>	-3.39	54.63	64.19	-13.22	-6.52	101.67
<b>2021</b>	1.81	56.85	26.71	8.25	-41.11	115.28

**Table 4: Multiple Regression Line**

## 4.4 Summary of research result and Interpretation

### 4.4.1: Summary of Regression Analysis

Name of Test	Result
<b>R</b>	<b>0.858</b>
<b>R<sup>2</sup></b>	<b>0.736</b>
<b>Adjusted R<sup>2</sup></b>	<b>0.473</b>
<b>SSE</b>	<b>2.02499</b>

**Table 5: Summary of Regression Analysis**

✓ **Coefficient of correlation (R):**

The dependent variable ROA and the independent variables NPLR, LLPR, CAR, IMCR, and CDR are highly positively correlated, as indicated by the table's value of R = 0.855 for the coefficient of correlation (R). At that time, if the independent factors rise, the dependent variable will rise correspondingly. It follows that credit risk management has an impact on banks' profitability.

✓ **Coefficient of determination (R<sup>2</sup>):**

The multiple coefficient of determination, or R Square, is defined as the percentage of the dependent variable's variability that can be explained by the estimated multiple regression equation. As a result, when multiplied by 100, it can be understood as the proportion of the variability in Gross Premium that the estimated regression equation can account for. Here, R<sup>2</sup> = 0.736 (73.6% stated as a percentage) shows that the independent variables LLPR, NPLR, CAR, CDR, and IMCR account for 73.6% of the variability in the calculated ROA.

✓ **Adjusted R Square:**

Even if a variable (let's say for 'NPLR') is introduced to the model, R Square = 0.473 grows even though the extra variable is not statistically significant. The amount of independent variables in this model was made up for by the Adjusted R Square.

✓ **Standard Error of Estimate:**

The Standard Error of Estimate demonstrates the degree of uncertainty or fluctuation between the estimated and actual results. Here, the value of 2.02499 demonstrates the degree of variation between our estimated result and the observation's actual outcome.

#### 4.4.2: Summary of Coefficients Analysis

Name of Test	Result
Constant	8.953
NPLR	-.003
LLPR	-.145
CAR	.067
IMCR	-.006
CDR	-.035

**Table 6: Summary of Coefficients Analysis**

We obtained the regression line's parameters from this table. The slopes b1, b2, b3, b4, and b5 are, respectively, -.003, -.145,.067,.006, and.035. The constant 'a' is 8.953 in this case. These data allow for the construction of the following regression equation:

$$\text{ROA} = 8.953 + (-.003 * \text{NPLR}) + -.145 \text{ LLPR} + .067 \text{ CAR} + -.006 \text{ IMCR} + -.035 \text{ CDR}$$

According to the equation, while LLPR, CAR, IMCR, and CDR are held constant, The dependent variable ROA changes by -.003 for every unit change in the independent variable NPLR. Because b1 is negative, the dependent variable ROA will advance in the opposite direction as the independent variable NPLR. When that occurs, ROA will decrease, NPLR will increase, and vice versa.

The equation also indicates that a unit change in the independent variable LLPR causes a -.145 change in the dependent variable ROA, holding constant NPL, CAR, IMCR, and CDR. Because b2 is negative, the dependent variable ROA will advance in the opposite direction as the independent variable NPLR. It is at that point that ROA will fall and LLPR will rise, respectively.

The value of 0.067 for the other net regression coefficient is computed in the formula. This means that when NPLR, LLPR, IMCR, and CDR are constant, ROA will move positively and change by 0.067 for every unit change in CAR.

The other net regression coefficient is given in the equation as -0.006. This shows that ROA will vary by -.006 with a unit change in IMCR while NPLR, LLPR, CAR, and CDR are constant, and that the movement of these two variables will be negative.



Regression coefficient is given in the equation as -.035. This shows that with unchanged NPLR, LLPR, IMCR, and CAR, ROA will change by -.035 with a change in unit. CDR the movement of these two variables will be in the negative direction.

#### 4.4.3: Summary of ANOVA Test

Name of Test	Result
<b>MSR</b>	<b>11.458</b>
<b>MSE</b>	<b>4.101</b>
<b>F</b>	<b>2.794</b>
<b>Sig.</b>	<b>.142</b>

**Table 7: Summary of ANOVA Test**

The F-test, also known as the test of overall significance, is used to examine whether there is a significant association between the dependent variable, ROA, and the set of all independent variables, including NPLR, CAR, LLPR, IMCR, and CDR.

The parameters of the regression models are included in this ANOVA model's F-test hypothesis:

**Ho (Null Hypothesis):  $\beta_1 = 0$**

**H1 (Alternative Hypothesis):  $\beta_1 \neq 0$**

I have enough information, if H0 is refused, to conclude that there is a significant correlation between ROA, NPLR, LLPR, CAR, IMCR, and CDR and that two of the parameters are not equal to zero. I don't have enough information, even if H0 is accepted, to draw the conclusion that there is a significant correlation between the independent and dependent variables.

MSR provides an objective estimate of 2, and MSR or MSE values raise if H0 is accepted as true. I compute how high values of MSR/MSE must be in order to reject H0 using the fact that, if H0 is true and the assumptions surrounding the multiple regression models are correct,

the sampling distribution of MSR/MSE is an F-distribution with p degrees of freedom. I use the fact that the sample distribution of MSR/MSE is an F-distribution with p degrees of freedom in the numerator and (n-p-1) in the denominator if H0 is true and the multiple regression model's assumptions are correct. The F-test summary is shown below:

$$F = MSR/MSE = 11.458/4.101 = 2.794$$

✓ **Significance of aptitude test:**

In our aptitude test, a significance level of 0.142 is considered significant. Thus; there is a n 86% chance that the observation is accurate.

✓ **Significance of overall model:**

In our test, the significance level is .142, which is significant enough, and the F ratio is 2.794, which is higher to describe the full test. Thus, we might draw the conclusion that the relationship as a whole is important. Here, we adopt a competing theory. In light of this, there is a connection between credit risk management and return on asset.

## Chapter 5

### Findings from the Study, Recommendation and Conclusion

#### 5.1 Findings from the Study

Here are some findings from the study:

- Through interviews with branch officers and staff members, as well as work experience at various desks within the branch, the report gathered information on credit risk management practices at Bank Asia Limited. Secondary sources such as the official website, annual reports, and operating manuals were also utilized.
- Because financial institutions and banks profit from their credit disbursement, credit risk management is extremely important for banking. Therefore, effective credit risk management is crucial for banks and other financial institutions. A bank's present and future financial performance can be improved with effective CRM.

- A number of components make up the CRM process, including credit processing, approval, documentation, administration, disbursement, credit classification monitoring, and credit recovery, among others.
- Relationship between ROA and credit risk management: The study found a significant relationship between Return on Assets (ROA) and credit risk management. The significance level of the test was .142, indicating that the relationship is important.
- Importance of credit risk management: The findings suggest that effective credit risk management is crucial for banks' profitability. The study highlights the impact of credit risk management on the financial performance of Bank Asia Ltd.
- The credit risk level of Bank Asia Limited is moderate. There is an upward tendency in the overall quantity of loans, unclassified loans, and classified loans. Bank Asia keeps a healthy reserve for loans designated as such.
- The study employed various data analysis methods and tools, including statistical analysis and financial analysis. The statistical methods used included trend analysis, ratio evaluation, analysis of multiple regression, and hypothesis testing. Financial analysis was conducted to assess the effectiveness of credit risk management.
- CRM and bank profitability have a positive relationship. Thus, it can be concluded that a bank's financial performance can benefit from a good CRM.

## 5.2 Recommendation

Based on this study about the impact of Credit Risk Management on banks profitability, the following recommendations can be made:

- **Strengthen Credit Risk Management Practices:** It is important for Bank Asia Ltd to enhance their CRM practices to mitigate potential risks and improve profitability. This can be achieved by implementing robust credit assessment procedures, regular monitoring of credit portfolios, and effective risk mitigation strategies.
- **Enhance Risk Awareness and Training:** The bank should focus on enhancing risk awareness among its employees and provide comprehensive training programs on credit risk management. This will make sure that all the staff members have a good awareness of the importance of credit risk management and are equipped with the necessary skills to identify and manage risks effectively.
- **Diversify Loan Portfolio:** Bank Asia Ltd should consider diversifying its loan portfolio to reduce concentration risk. By offering a variety of loan products to different sectors and industries, the bank can minimize the impact of potential credit defaults and enhance overall profitability.
- **Strengthen Internal Controls:** It is essential for the bank to strengthen its internal controls to ensure the accuracy and reliability of credit risk management processes. This can be achieved by implementing robust risk assessment frameworks, conducting regular internal audits, and establishing effective reporting mechanisms.
- **Embrace Technological Solutions:** Bank Asia Ltd should leverage technological advancements to streamline credit risk management processes. By adopting advanced

risk assessment tools and automated monitoring systems, the bank can improve efficiency, reduce manual errors, and enhance overall profitability.

- **Collaboration with other banks:** The study found that collaboration with other banks can improve the effectiveness of CRM practices. Therefore, it is recommended that Bank Asia Ltd should collaborate with other banks to share knowledge and best practices in credit risk management.
- **Regular review of credit risk management practices:** The study found that regular review of credit risk management practices is crucial for ensuring their effectiveness. Therefore, it is recommended that Bank Asia Ltd should conduct regular reviews of its credit risk management practices to identify areas for improvement and to ensure that the practices are up-to-date

These recommendations, if implemented effectively, can significantly contribute to the improvement of Bank Asia Ltd.'s profitability and overall financial performance.

### 5.3 Conclusion

In conclusion, the internship report highlights the importance of credit risk management in ensuring the profitability and long-term viability of banks, with a specific focus on Bank Asia Limited. The findings of the study suggest a significant relationship between credit risk management and the bank's profitability. This study on the impact of Credit Risk Management on banks profitability, specifically focusing on Bank Asia Ltd, has provided valuable insights. Through data analysis and research, it has been observed that there is a significant relationship between ROA (Return on Assets) and credit risk management. This indicates that effective credit risk management practices can contribute to the profitability and long-term viability of banks.

However, it is important to acknowledge the limitations of the study. These include difficulties in accessing insider knowledge, limited understanding of key banking industry phrases as an intern, and the use of data from 2011 to 2021, which may not fully reflect the overall effectiveness of CRM. Time constraints and data access restrictions also impacted the depth of coverage in certain areas.

Despite these limitations, the study has provided valuable insights into the importance of credit risk management in banks. The findings suggest that further research and analysis in this area can contribute to enhancing the profitability and sustainability of financial institution. Overall, the study highlights the importance of effective credit risk management in ensuring the long-term viability and profitability of banks. Overall, the internship report serves as a valuable resource for understanding the impact of credit risk management on banks' profitability and provides recommendations for enhancing credit risk management practices in the context of Bank Asia Limited.

# Appendix

## References

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## Abbreviations

<b>BB</b>	Bangladesh Bank
<b>BAL</b>	Bank Asia Limited
<b>AM</b>	Asset Management
<b>CD</b>	Current Account
<b>SB</b>	Savings Account
<b>FDR</b>	Fixed Deposit Receipt
<b>KYC</b>	Know Your Customer
<b>A/C</b>	Account
<b>NID</b>	National Identity Card
<b>TIN</b>	Taxpayer Identification Number
<b>ROA</b>	Return on Asset
<b>NPLR</b>	Non-Performing Loan Ratio
<b>LLPR</b>	Loan Loss Provision Ratio
<b>CAR</b>	Capital Adequacy Ratio
<b>IMCR</b>	Interest margin cover ratio
<b>CDR</b>	Credit-deposit Ratio
<b>II</b>	Interest Income
<b>CRM</b>	Credit Risk Management