INTERNSHIP REPORT ON

"The Credit Risk Management of Basic Bank Ltd."

BASIC Bank Limited

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Submitted To

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Submitted By

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ID: 191-11-6192

Program: BBA

Batch: 52th

Major: Finance

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LETTER OF TRANSMITTAL

29 August, 2025

Dr. Md Anhar Sharif Mollah

Associate Professor

Dept. of Finance & Banking

Faculty of Business and Entrepreneurship

Daffodil International University

Subject: Submission of Internship Report.

Dear Sir,

It is my great pleasure to submit this report on "**The Credit Risk Management of Basic Bank Ltd**" as a partial requirement for the completion of my internship program. I am writing to submit my internship report, as per the requirements of my internship program with Basic Bank Limited.

This report has been prepared with the objective of providing an overview of the credit operations, risk assessment policies, and management practices of BASIC Bank Limited. Amid my internship period, I had the opportunity to observe and dissect the bank's credit approval process, the challenges, and monitoring techniques it faces in minimizing credit risk.

Preparing this report required sincere effort and careful attention, and I have strived to present it in a comprehensive manner within the given schedule. I trust that the learning and experience from this task will contribute positively to my performance in the workplace. Thank you for your time and consideration.

Sincerely Yours,

Saima

Saima Aktar

ID: 191-11-6192

Batch: 52th

Department of Business Administration

Daffodil International University

PROCLAMATION

I, **Saima Aktar**, hereby proclaim that the following internship report titled "**The Credit Risk Management of Basic Bank Ltd.**" is solely prepared by me right after the completion of my internship at the Finance Department Office, Samad Market, Jhikargacha Bazar, Jashore under the supervision of **Dr. Md Anhar Sharif Mollah,** Associate Professor, Faculty of Business and Entrepreneurship**.**

Amid my internship, I had the opportunity to work on various tasks and projects, which enabled me to apply the theoretical knowledge gained from my academic studies. I have completed a three-month internship at Basic Bank Limited at the Jhikargacha Branch, Jashore. I successfully completed a three-month internship at **Basic Bank Limited, Jhikargacha Branch, Jashore**. I hereby confirm that this report has been prepared solely to fulfill my academic requirements and carries no other purpose, although it may serve as a reference for enhancing my professional knowledge.

Saima

ID: 191-11-6192

Batch: 52th

Major: Finance

Department of Business Administration

Daffodil International University

LETTER OF AUTHORIZATION

This is to sanction that **Saima Aktar, ID: 191-11-6192** a student of the Department of Business Administration of Daffodil International University has completed his internship report titled **“The Credit Risk Management of Basic Bank Ltd.”** under my supervision and direction.

His internship placement was at the Office Finance Department, Samad Market, Jhikargacha Bazar, Jashore**.** I am gratified to state that he has gone through all the necessary and required steps to execute the report and the report contains all the data, information, analysis and findings from authentic sources. Thus, the report seems to have completed on a successful note.

I wish him every success in life.

Dr. Md Anhar Sharif Mollah

Associate Professor

Dept. of Finance & Banking

Faculty of Business and Entrepreneurship

Daffodil International University

ACKNOWLEDGEMENT

With utmost respect, I concede my head to the Almighty Allah for blessing me with the wisdom, patience, and perseverance to successfully complete my internship and prepare this report.

I impart my unfeigned gratitude to my honorable academic supervisor, **Dr. Md Anhar Sharif Mollah,** of **Daffodil International University,** whose thoughtful guidance and constructive suggestions enriched my learning and made this report more insightful.

My immense gratitude goes to my organizational supervisor, **Md. Al Morshed, Principal Officer & Operation Manager**, at **BASIC Bank Limited**, whose mentorship, practical knowledge, and generous support transformed this internship into a truly rewarding experience. I am equally thankful to the officials and colleagues of BASIC Bank Limited for their cordial cooperation, encouragement, and invaluable professional exposure during my internship period.

Lastly, I am beholden to my family and well-wishers for their constant inspiration and unwavering belief in me, which has always been my driving force.

EXECUTIVE SUMMARY

This report abridges the key learning outcomes and experiences gained during my internship at **BASIC Bank Limited,** with a specific focus on **"The Credit Risk Management of Basic Bank Ltd."** The internship was designed to provide practical exposure to real-world business operations and to complement the academic knowledge acquired during my undergraduate studies.

During this term, I was actively involved in **evaluating operational processes, assisting in analytical reporting, supporting departmental tasks, coordinating with teams**. These responsibilities allowed me to acquire empiric knowledge of professional practices, improve my technical understanding, and develop essential workplace skills including collaboration, adaptability, and analytical thinking.

Design and organize products and services. The project section focuses on analyzing the credit risk associated with Basic Bank Limited. The report is structured into several sections, including an introduction, organizational, learning, analysis, survey, findings and recommendations, and supplementary sections. The report includes the letter of transmittal, acceptance letter, acknowledgement, announcement, introduction regarding the issue, and executive summary. The initial chapter embraces an introduction, a comprehensive overview of the banking industry, the report's genesis, the report's purpose, the report's methodology, the study's limitations, and the report's scope. The second section provides an overview of Basic Bank Limited, including its values, mission, vision, and hierarchy system. The analysis section provides the Bangladesh Bank's definition of credit risk. Credit risk refers to the potential financial loss that Basic Bank Ltd. may incur due to the failure of small and medium enterprises (SMEs) to repay their loans. Basic Bank Ltd. offers a range of products and services specifically designed for SMEs. ShampadRin refers to a capital loan; ChaltiRin is a working capital loan; MoushamiRin is a festival loan; DigunRin is a double loan; Shahaj is an easy loan; BASIC ProyashRin project means to purchase equipment, to repair existing equipment, to purchase tools/spares, to acquire/repair/renovate business premises, to use as working capital. Anchal sector-wise A breakdown is a breakdown of the loans based on different service industries. Loan

outstanding, country situation, job responsibilities: leading the credit department, supervising a group, managing direct sales, overseeing the credit assessment unit of the Women Entrepreneur Cell, and handling MIS or planning. The final portion presents the main discoveries and suggestions, which include the major findings: Positive findings, negative findings, strengths, and weaknesses of Basic Bank Ltd. recommendations, conclusions, and bibliographies. Basic Bank Limited holds the belief that the economic prosperity of the entire country is contingent upon the individual development of each citizen. In line with this principle, the bank is extending loans to both rural communities and remote places inside the country. Thus, it has inaugurated seven different loan categories. Obtaining the loan, individuals are actively contributing to the economic sector of the country.

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LIST OF ABBREVIATION

Abbreviation	Elaboration
VaR	Value at Risk
IFRS	International Financial Reporting Standards
EVA	Economic Value Added
RAROC	Risk-adjusted return on capital
ALM	Asset Liability Management
NPLs	Non-performing Loans
ESG	Environmental, social, and governance
CRM	Customer Relationship Management
CRG	Credit Risk Grading

CHAPTER: 1

INTRODUCTION

1.1 Background of the study

Banking institutions are the rachis of a nation's financial system. They play a critical role in mobilizing savings and channeling them into investments, thus speeding up industrialization and overall economic growth. Among their many functions, lending remains the most important and also the riskiest. Whenever a bank provides credit, it assumes the risk that the borrower might fail to repay the loan on time. This possibility of default is commonly known as **credit risk**.

In Bangladesh, the issue of credit risk has become a matter of serious concern, especially in state-owned banks. Rising non-performing loans (NPLs), poor monitoring, and political pressure in loan disbursement have weakened the financial health of several banks. **Basic Bank Limited**, being a state-owned commercial bank, has experienced significant challenges related to default loans over the last decade. For this reason, understanding the credit risk management practices of Basic Bank is highly relevant and valuable for both academia and practice.

In order to obtain a Bachelor of Business Administration degree from Daffodil International University, it is necessary to fulfill the requirement of successfully completing an internship at a proficient business organization. Furthermore, it is required to provide a thorough internship report that centers around a pertinent business subject and presents the corresponding research outcomes. I have chosen Basic Bank Limited to carry out this work. Theoretical knowledge is rendered insignificant in the absence of practical comprehension. As an intern, I will have the chance to directly implement the theories inculcation by our lecturers at DIU and in earlier courses.

1.2 Rationale of the study

Credit risk is directly related to the sustain and lucrativeness of a bank. If credit risks are not properly managed, they can threaten the liquidity position, reduce investor confidence, and even sabotage the entire banking sector. In Bangladesh, the increasing trend of loan defaults has raised questions about the effectiveness of current risk management mechanisms.

Studying the case of Basic Bank Limited is important because the institution has been under the spotlight for its rising NPLs and allegations of irregularities. By analyzing its credit appraisal, monitoring, and the effect of external influences such as politics, this report attempts to uncover the underlying factors that contribute to credit risk. The study is also expected to propose recommendations that could help improve the bank's performance and contribute to strengthening the banking industry as a whole.

1.3 Objectives of the study

General Objective

- To analyze the credit risk management framework of Basic Bank Limited and evaluate its effectiveness.

Specific Objectives

- To explore the relationship between credit appraisal and the level of loan defaults.
- To investigate how credit monitoring practices affect repayment performance.
- To examine the role of political interference in loan sanctioning and default.
- To suggest possible measures for improving credit risk management practices in the bank.

1.4 Scope of the Study

This study is confined to the credit risk management practices of Basic Bank Limited. The analysis focuses mainly on loan sanctioning, appraisal, monitoring, and political influence on loan defaults. The scope excludes other areas of risk management such as market risk, liquidity risk, or operational risk. Data collection is limited to selected branches and available secondary reports**.**

1.5 Limitations of the Study

 Access to sensitive financial information was restricted due to confidentiality policies.

 The study relies on both primary and secondary data, which may include some level of bias.

 Time constraints limited the opportunity to expand the research sample to all branches.

Chapter: 2

Organizational Profile

BASIC

বেসিক ব্যাংক লিমিটেড

BASIC Bank Limited

2.1 History of the Basic Bank Ltd.

BASIC Bank Limited is a bank that is fully owned by the government. The bank exclusively specializes in providing banking services. He takes pride in working for small and medium-sized businesses because of the memo requiring that 50% of loan capital go to different industries. The bank directly engages in many small and large projects or businesses. Furthermore, the Bank assumes a significant role in various sectors of the country's economy, including providing financial support for agriculture through agricultural loans and farm-based industrial loans. It also offers start-up credit specifically for women and provides consumer loans along with other types of loans. Simultaneously, BASIC Bank offers foreign trade services, including import and export facilitation for customers, as well as money transfer services. Every bank branch offers online banking services. Furthermore, BASIC Bank offers its customers the convenience of ATM cards, debit cards, and VISA cards. BASIC Bank places significant emphasis on discovering new financial value that is beneficial.

The bank was created with the primary objective of promoting the growth of **small and medium-sized enterprises (SMEs)** and supporting the development of commerce and industry in Bangladesh. From the beginning, BASIC Bank distinguished itself as a specialized bank that focused on financing small-scale industries, agro-based projects, and export-oriented businesses.

Over time, the bank gradually expanded its activities into a full-fledged commercial banking institution. Today, BASIC Bank Limited provides a wide range of banking services, including:

- Deposit mobilization.
- Corporate and SME financing.
- Consumer credit.
- Foreign trade financing.
- Remittance services.

The bank operates under the full control and guidance of the Ministry of Finance and is regulated by the Bangladesh Bank. Its operations are managed by a Board of Directors, appointed by the Government of Bangladesh.

In recent years, BASIC Bank has faced challenges due to the rise of **non-performing loans (NPLs)** and governance-related issues. Despite these difficulties, the bank continues to play an important role in the financial system by focusing on SME development and maintaining its mandate of supporting national economic growth.

Currently, BASIC Bank operates through multiple branches across the country, serving both individual and institutional clients. Its long-term vision is to strengthen its financial health, restore public confidence, and uphold its original objective of supporting small industries and commerce in Bangladesh.

Authentic Background of Basic Bank Limited:

BASIC Bank Limited (Bangladesh Small Industries and Commerce Bank Limited) registered under the Companies Act 1913 on the 2nd of August, 1988, started its actions from the 21st of January ,1989. It is governed by the Banking Companies Act 1991. The Bank was established as the policy makers of the country felt the urgency for a bank in the private sector for financing small scale Industries (SSIs). To begin with, the Bank started as a joint venture enterprise of the BCC Foundation with 70 percent shares and the Government of Bangladesh (GOB) with the remaining 30 percent shares. The BCC Foundation being nonfunctional following the closure of the BCCI, the Government of Bangladesh took over 100 percent ownership of the bank on 4th June 1992. Thus, the Bank is 100% state-owned.

BASIC Bank Limited is unique in its objectives. It is a blend of development and commercial banks. The Memorandum and Articles of Association of the Bank stipulate that 50 percent of loanable funds shall be invested in the small and medium industries sector.

2.2 Vision, Mission & Objectives

Mission of BASIC Bank Limited

BASIC Bank Limited is committed to fostering sustainable economic growth in Bangladesh by delivering inclusive, reliable, and innovative banking services. With a special focus on small and medium-sized enterprises (SMEs), commerce, and industrial development, the bank strives to empower entrepreneurs, generate employment, and promote financial inclusion across all sectors of society.

Vision of BASIC Bank Limited

The vision of BASIC Bank Limited is to emerge as a **premier state-owned commercial bank**, recognized for excellence in SME financing, customer-centric services, and adherence to robust governance practices. The bank aspires to play a pivotal role in advancing national economic prosperity while setting benchmarks for ethical and efficient banking operations.

Objectives of BASIC Bank Limited

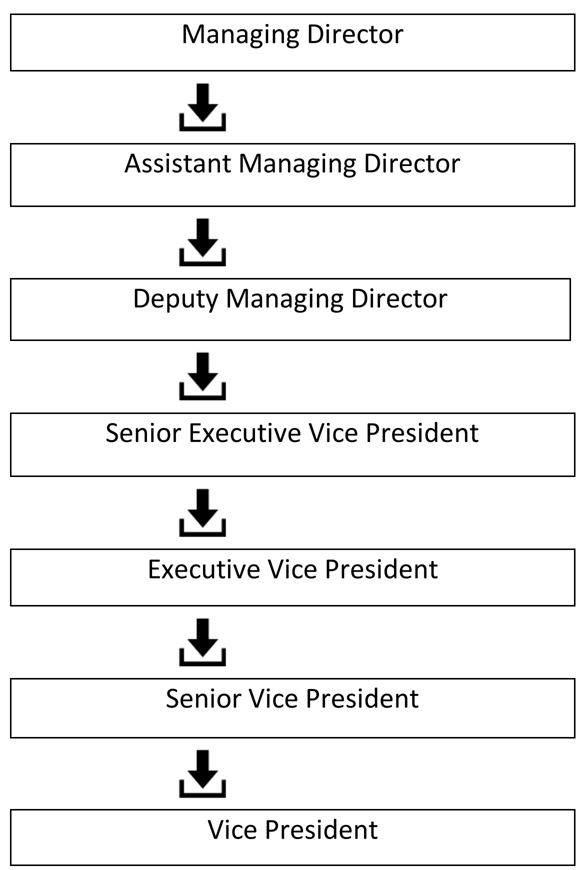
1. Facilitate SME Development: Prioritize financing and advisory support for small and medium enterprises to catalyze industrial growth and entrepreneurial innovation.
2. Support Agro and Rural Industries: Extend targeted financial solutions to agro-based and rural enterprises, enhancing productivity and regional economic development.
3. Promote Sustainable Banking Practices: Ensure prudent credit management and operational efficiency to maintain long-term financial stability.
4. Leverage Technological Advancements: Incorporate modern banking technology to optimize service delivery, improve customer experience, and streamline internal processes.
5. Maintain Ethical Governance: Uphold integrity, transparency, and accountability in all operations to strengthen stakeholder trust.
6. Contribute to National Economic Development: Actively participate in the financial empowerment of diverse sectors, thereby supporting the country’s macroeconomic objectives.

2.3 Organizational Structure

Management Hierarchy

BASIC Bank limited is a hundred percent government scheduled bank. The shareholders are the proprietors of the banks. There are 10 members of the Board of Director who are managing the total management & Human Resources of the bank. At present **Mr. Helal Ahmed Chowdhury**, is the chairperson of BASIC & the Managing Director of this bank is **Mr. Md. Quamruzzaman Khan**. The chairperson & Managing Director both are the members of this bank. The chairman of the bank is the head of the Board of Directors. The main function of the Board of Directors is to formulate policy. From the top to the bottom management body of BASIC Bank Limited can be divided into four levels:

- Top Level
- Management Executive Level
- Management Mid-Level
- Management Junior Level



Assistant Vice President

Senior Assistant Vice President

First Assistant Vice President

Senior Executive Officer

Executive Officer

Principal Officer

Senior Officer

Management Trainee / Probationary Officer

Officer

Junior Officer

Assistant Officer

Trainee Assistant

2.4 Core Products & Services

1. **Retail Offerings (For Individuals)**

Deposit Products: Includes fixed-term schemes like:

- BASIC Double Benefit Scheme
- BASIC Swapnopuron
- BASIC Probin Monthly Savings
- BASIC Monthly Income Scheme
- BASIC Century Deposit Scheme

Loan Solutions:

- Home loans (purchase, construction, renovation)
- Personal "Meet the Need" loans
- Project financing (long/medium/short term)
- Working capital financing
- Trade finance

Payment Cards:

- **Credit Cards**: Offer lifestyle and corporate benefits.
- **Debit Cards**: ATM access, mini statements, SMS alerts, e-commerce and upcoming fund transfer features.

SME Services

- **SME Deposit Facilities**: Tailored to small and medium enterprises for savings and liquidity management.
- **SME Loans**: Financing for working capital, business expansion, capital machinery, and other operational needs.

2. **Corporate Banking Solutions**

Deposit Products:

- Current Accounts (fast access, daily transactions)
- Premium Plus Current Accounts (with additional benefits for high-balance clients)
- Special Notice Deposit Accounts (interest-bearing, flexible notice)
- Fixed Term Deposits (FDRs)
- **Loan Products**: Structured corporate financing options with competitive interest rates, transparency, and fast disbursals.

Specialized & Support Services

- **Industrial & Commercial Credits**: Term loans, working capital, export-import finance—including SWIFT-based international transactions.
- **Microcredit Program**: Small-scale lending via NGO partnerships or direct lending aimed at urban and suburban poor—supporting income generation.
- **Remittance, Underwriting & Guarantees**: Services for capital raising, underwriting, guarantees, public offerings, and venture capital support for innovative projects.

2.5 SWOT Analysis of BASIC Bank Limited

Strengths	Weaknesses
Government ownership ensures credibility and sovereign support.	High volume of non-performing loans (NPLs) reduces profitability.
Specialized expertise in SME financing since inception.	Weak governance and past irregularities affect reputation.
Wide branch coverage across the country.	Lagging behind competitors in digital banking and modern technology.

Stable and low-cost deposit base due to strong public trust.	Limited innovation and diversification in financial products.
Experienced workforce with industry and SME knowledge.	Consistent losses and poor financial sustainability.
Opportunities	**Threats**
Expanding demand for SME and agricultural credit.	Fierce competition from private and foreign banks with advanced services.
Scope for digital transformation through internet, mobile, and agent banking.	Stringent regulatory monitoring by Bangladesh Bank.
Participation in government-led development and infrastructure projects.	Reputational challenges from past scandals.
Collaborations with fintech's and development agencies to expand services.	Economic instability increasing loan default risks.
Financial inclusion initiatives to capture unbanked rural population.	Rising cybersecurity threats with growing digitalization.

In conclusion, BASIC Bank Limited has strong government banking and SME expertise but suffers from high NPLs, governance issues, and weak profitability. To regain competitiveness, the bank must strengthen governance, adopt modern banking technology, and focus on digital transformation while capitalizing on SME and financial inclusion opportunities.

CHAPTER – 03

METHODOLOGY

3.1 Methodology

To accomplish the objectives of this internship report, a **systematic and structured research methodology** was adopted. The methodology was designed to ensure the **accuracy, credibility, and validity** of the collected information and subsequent analysis. Since the focus of this study is on the credit risk management practices of Basic Bank Limited, it was essential to combine both **qualitative and quantitative approaches**. This comprehensive strategy enabled the researcher to develop an in-depth understanding of the bank's credit policies, risk assessment procedures, loan monitoring techniques, and recovery mechanisms.

3.2 Research Design

This study followed a **descriptive and exploratory research design**. The descriptive element allowed the researcher to present an accurate picture of the current credit risk practices of Basic Bank Limited, while the exploratory component facilitated the investigation of new insights regarding challenges and gaps in the existing framework. This design was appropriate as it helped uncover the underlying reasons for the bank's high non-performing loans (NPLs) and assess the effectiveness of its credit risk management framework.

3.3 Data Collection Methods

The study relied on both **primary** and **secondary** data sources to ensure data triangulation and enrich the reliability of findings.

Primary data

Primary data were collected directly from the operational environment of Basic Bank Limited to obtain firsthand and practical insights. The following techniques were used:

- Desk-based assignments and observation of activities within the Credit Division.
- Informal discussions and formal interactions with employees across multiple departments.
- Structured and semi-structured interviews with senior officials, credit risk managers, and loan officers to understand their perspectives on credit policy, risk assessment, and loan recovery challenges.

Secondary data

Secondary data supported and validated the primary findings by providing documented evidence. These included:

- Annual reports, audited financial statements, and published accounts of Basic Bank Limited.
- Internal policy manuals, credit guidelines, operational handbooks, and circulars of the bank.
- Directives, regulations, and policy circulars issued by Bangladesh Bank and other governing bodies.
- Internal databases, credit portfolio records, classified loan statements, and historical data preserved within the bank's archives.

3.4 Data Analysis Techniques

The collected data were analyzed using a **combination of qualitative content analysis and trend analysis**. Qualitative responses from interviews and discussions were categorized into thematic areas to identify patterns, recurring issues, and operational challenges. Meanwhile, financial and credit-related data from reports and statements were processed using descriptive statistics to examine loan trends, NPL ratios, and credit growth over time. This mixed analysis helped establish clear links between credit risk indicators and the bank's overall financial performance.

3.5 Limitations of the Methodology

Despite adopting a rigorous approach, certain limitations affected the scope of the study:

- Restricted access to confidential and sensitive internal data, which limited the depth of analysis.
- Time constraints during the internship period, which reduced the number of respondents available for interviews.
- Possible subjective bias in interviewees' responses, as their opinions might reflect personal experiences rather than institutional practices.
- Limited secondary data availability on recent credit policy updates and classified loan details.

In summary, this methodological framework enabled the researcher to collect, analyze, and interpret relevant data in a structured manner. The use of multiple data sources enhanced the reliability and validity of the findings, thereby ensuring that the conclusions drawn from this study are **evidence-based, authentic, and academically robust**.

CHAPTER – 03

LITERATURE REVIEW & THEORETICAL FRAMEWORK

4.1 Credit Risk: Definition and Importance

Credit risk is defined as the conceivability of a financial loss resulting from a borrower's inability to fulfill their contractual obligations. It is one of the most fundamental risks in the banking sector, as the majority of a bank's revenue comes from lending activities. According to financial theory, credit risk can be understood as the **uncertainty associated with the repayment of loans or credit facilities**.

Credit risk may be defined as the likelihood that a borrower or counterparty will fail to fulfill contractual obligations in accordance with agreed terms. The Basel Committee on **Banking Supervision (2001**) describes credit risk as the potential for financial loss arising from a borrower's inability to repay. Similarly, **Saunders and Allen (2010)** note that credit risk is the probability of default, which represents the most substantial threat to banks, as loan assets constitute their primary source of income.

Significance of Credit Risk Management

The importance of credit risk management is well-documented in scholarly discourse.

- **Kargi (2011)** asserted that ineffective credit practices often translate into higher non-performing loans (NPLs), undermining bank profitability.
- **Kolapo, Ayeni, and Oke (2012)** demonstrated a direct relationship between credit risk indicators—such as loan loss provisions and NPL ratios—and the financial performance of banks.
- In Bangladesh, **Rahman (2018)** revealed that state-owned banks are particularly vulnerable due to inadequate credit appraisal and governance challenges.
- **Hasan (2020)** also reported that persistent NPL accumulation and capital erosion in Bangladeshi banks stem from ineffective credit risk control mechanisms. Similarly, **Alam and Jahan (2021)** noted that credit risk is the largest contributor to banking sector fragility in South Asian economies.

Thus, managing credit risk is not only essential for maintaining institutional profitability but also for protecting depositors' trust and ensuring systemic stability.

4.2 Types of Credit Risk

Types of Credit Risk

Credit risk can be classified into several categories depending on the nature of the borrower's default and the market conditions. The major types are:

1. Default Risk

- The most common form of credit risk.
- It arises when a borrower fails to make scheduled payments of principal or interest.
- Example: A customer who stops paying installments on a loan, leading to a **Non-Performing Loan (NPL)**.

2. Credit Spread Risk

- Refers to the risk of loss due to **changes in the credit spread** (difference in yield between a risk-free bond and a risky bond).
- If investors demand a higher spread for lending to a borrower, the value of existing loans or bonds declines.
- Example: If a company's perceived trustworthiness weakens, the yield on its bond's increases, reducing their market value.

3. Downgrade Risk

- Occurs when a borrower's **credit rating is lowered** by rating agencies.
- A downgrade increases borrowing costs and signals higher default probability.
- Example: A bank suffering reputational or operational problems may be downgraded, raising financing costs.

4. Counterparty Risk

- Relevant in **derivatives, foreign exchange, and trade financing**.
- It is the risk that the counterparty to a financial contract fails to fulfill obligations.
- Example: In a swap contract, one party may fail to make the agreed cash flows.

5. Concentration Risk

- Occurs when a bank's loan portfolio is heavily concentrated in a single sector, industry, or geographic region.
- A downturn in that sector/region can lead to large-scale defaults.
- Example: Excessive lending to the **real estate sector** before an economic downturn.

6. Sovereign Risk

- A type of credit risk where governments or state-owned entities fail to honor debt obligations.
- Example: Countries defaulting on foreign loans due to political instability or weak reserves.

7. Settlement Risk

- Arises during **payment and settlement processes**, especially in international trade and forex.
- It occurs when one party makes a payment but the other fails to deliver the counter-value.
- Example: A bank pays USD to a counterparty but does not receive the EUR in return due to the counterparty's default.

In practice, banks (including BASIC Bank Ltd.) primarily focus on **default risk, counterparty risk, and concentration risk**, since these directly affect their loan portfolios.

4.3 Risk Management in Banking Sector

Risk management in the banking sector refers to the process of identifying, assessing, monitoring, and mitigating various risks that can threaten a bank's financial well-being and lucrativeness. Since banks operate by lending money, handling deposits, and investing, they are inherently exposed to multiple types of risks. Effective risk management ensures regulatory compliance, protects stakeholders' interests, and maintains financial system well-being. Further, **Ahmed and Uddin (2022)** demonstrated that risk-based supervision and stricter loan classification significantly reduce credit default rates. Technological interventions are also reshaping risk management: **Chowdhury, Rahman, and Islam (2023)** found that the adoption of AI-driven credit scoring models improved loan portfolio quality and reduced default risk. More recently, **Hossain and Akter (2024)** observed that banks with robust credit risk management policies reported lower NPL ratios, stronger capital adequacy, and higher profitability compared to peers with weak risk frameworks.

Risk in the banking sector is generally defined as the conceivability of financial loss arising from uncertainties in lending, investment, and operational activities (Jorion, 2007). Banks are exposed to a broad range of risks including credit risk, liquidity risk, market risk, operational risk, and reputational risk. Proper identification and management of these risks are critical for financial well-being and lucrativeness.

Importance of Risk Management in Banking

- Protects depositor funds and investor assurance.
- Ensures financial stability and reduces the chance of bank failure.
- Helps comply with regulatory schema.
- Enhances decision-making and lucrativeness.

- Prevents reputation damage.

Types of Risks in the Banking Sector

1. **Credit Risk**
   - Risk of borrower default or inability to repay loans.
   - Managed through credit appraisal, rating systems, collateral, and diversification.
2. **Market Risk**
   - Arises from fluctuations in interest rates, exchange rates, equity prices, and commodities.
   - Includes **interest rate risk**, **foreign exchange risk**, and **equity risk**.
3. **Liquidity Risk**
   - Risk of not being able to meet short-term obligations due to lack of liquid assets.
   - Managed through liquidity ratios, cash reserves, and stress testing.
4. **Operational Risk**
   - Results from internal failures (fraud, system breakdowns, human error).
   - Managed through internal controls, training, and risk culture.
5. **Reputational Risk**
   - Negative public perception harming the bank's brand.
   - Managed through ethical practices, customer service, and transparent operations.
6. **Compliance and Regulatory Risk**

    - Failure to comply with banking laws, KYC/AML rules, or central bank guidelines.

7. **Strategic Risk**
    - Poor business decisions or failure to adapt to market changes.
8. **Environmental and Emerging Risks**
    - Climate risk, cyber risk, and geopolitical risks affecting bank operations.

Risk Management Framework in Banks

- **Risk Identification** – Spotting potential risks in all banking activities.
- **Risk Assessment & Measurement** – Quantifying exposure using models (VaR, credit scoring).
- **Risk Control & Mitigation** – Diversification, hedging, collateral, insurance.
- **Monitoring & Reporting** – Ongoing supervision by risk management committees.
- **Compliance & Governance** – Ensuring adherence to Basel III, IFRS, and central bank regulations.

Tools & Techniques of Risk Management

- Credit risk rating models.
- Value at Risk (VaR) and Stress Testing.
- Asset-Liability Management (ALM).
- Hedging with derivatives.
- Internal audit and control systems.
- Risk-adjusted performance measures (RAROC, EVA).

Risk Management Framework (Basel Accords)

The Basel framework is the most influential theory-driven model of banking risk management. It emphasizes three pillars:

1. **Minimum Capital Requirements**

2. **Supervisory Review**
3. **Market Discipline**

Implementation and evaluation of the Basel standards

Full, timely and consistent adoption and implementation of Basel standards is critical to:

- improve the resilience of the global banking system
- promote confidence in prudential ratios
- encourage a predictable and transparent regulatory environment for internationally active banks

The Basel Committee and its governing body, the Group of Central Bank Governors and Heads of Supervision, have therefore set as a **high priority** the **full and effective implementation of Basel standards within the globally agreed time frame**. The Committee closely monitors and assesses these dimensions – timeliness and consistency - on a regular basis.

After implementation, the Committee's focus is on evaluation. This encompasses the assessment of **the effectiveness of the implemented Basel standards** in achieving the intended goals as well as the identification of any unintended consequences. Objective, agnostic and **empirically based evaluation** is an integral part of the Committee's policy development process.

In conclusion, risk management in the banking sector is not just about amenability but also about sustainability and long-term growth. Banks that implement strong risk management practices are better positioned to shield assets, build trust, and withstand financial shocks.

4.4 Bangladesh Banking Sector & Risk Management Practices

Overview of Bangladesh Banking Sector

The banking sector in Bangladesh is a groundwork of its financial system, providing financial intermediation, capital mobilization, and support for economic growth.

The banking sector of Bangladesh is one of the most important pillars of the national economy, playing a vital role in capital mobilization, credit disbursement, and financial inclusion. To ensure stability and sustainability, risk management practices have become a key strategic area for banks.

It comprises:

1. **State-Owned Commercial Banks (SOCBs)** – Government-owned banks like Sonali Bank, Janata Bank, Agrani Bank.
2. **Private Commercial Banks (PCBs) –** Privately owned banks such as BRAC Bank, Dutch-Bangla Bank, Eastern Bank Ltd.
3. **Foreign Commercial Banks (FCBs) –** International banks with a branch in Bangladesh like HSBC, Standard Chartered.
4. **Specialized Banks –** Banks that focus on specific sectors like Bangladesh Krishi Bank (agriculture) and Bangladesh Development Bank.
5. **Non-Banking Financial Institutions (NBFIs)** – Provide financial services but are not full-service banks, (leasing and investment companies)**.**

Key Features:

- Heavily regulated by Bangladesh Bank (BB), the central bank.
- Provides credit for trade, industry, and agriculture.
- Increasing adoption of digital banking and financial technology (FinTech).

Risk Management in Bangladesh Banking Sector

Type of Risk	Definition	Sources	Mitigation Practices (Bangladesh Banks)
Credit Risk	Borrower's failure to repay loans	Weak appraisal, loan default, overexposure to large borrowers, political influence	- Strict loan appraisal system - Loan classification & provisioning (per BB guidelines) - Collateral management - Continuous borrower monitoring
Market Risk	Loss due to changes in interest rates, foreign exchange, and stock prices	Interest rate volatility, FX fluctuations, capital market risks	- Asset Liability Management (ALM) Committee - Hedging (derivatives, swaps) - Regular market monitoring
Liquidity Risk	Inability to meet obligations when due	Sudden deposit withdrawals, funding shortages	- Maintaining liquidity buffers - Diversified funding sources - Cash flow planning
Operational Risk	Loss from internal process/system failure or fraud	Internal fraud, IT breakdown, human error	- Core Banking Software (CBS) - Internal controls & audits - Cybersecurity measures - Business continuity planning

Challenges in Risk Management

- High level of non-performing loans (NPLs) in some banks.
- Sparse risk culture and weak internal control in certain institutions.
- Cybersecurity threats due to digital banking expansion.
- Political and economic instability affecting credit quality and liquidity.

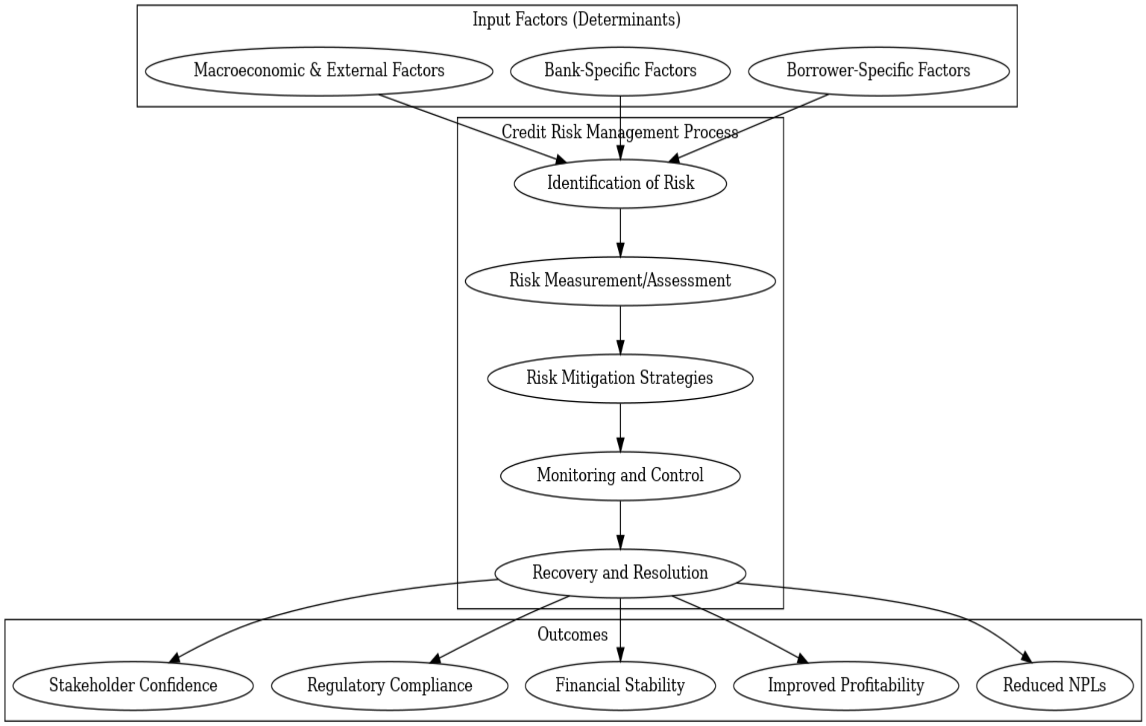
Recent Developments

- Adoption of digital banking and mobile financial services.
- Implementation of Basel III standards for capital adequacy and risk coverage.
- Increased focus on sustainable banking and ESG risk management.

In conclusion, The Bangladesh banking sector is steadily modernizing and strengthening its risk management practices. While credit, market, and operational risks remain significant, regulatory supervision by Bangladesh Bank and the adoption of international risk frameworks are helping banks mitigate these risks and ensure financial stability.

4.5 Conceptual Framework

Credit Risk Management (CRM) refers to the systematic process through which financial institutions, especially banks, measure, identify, monitor, and control the risk of loss arising from a borrower's failure to meet contractual obligations. A conceptual framework of CRM provides a logical structure that connects inputs, processes, and outcomes of managing credit risk.



The conceptual framework shows that effective credit risk management depends on borrower, bank, and macroeconomic factors. Through systematic processes—identification, measurement, mitigation, monitoring, and recovery—banks can reduce defaults and enhance financial performance.

CHAPTER – 05

CREDIT RISK MANAGEMENT PRACTICES IN BASIC BANK LIMITED

5.1 Credit Risk Management Process in Basic Bank Limited

Credit risk management is one of the most decisive functions of BASIC Bank Limited, as it directly affects the bank's financial stability and sustainability. The bank follows a structured process to identify, measure, monitor, and control risks associated with its lending operations.

The overall credit risk management process includes:

- **Loan Application & Collection of Information** – Clients submit loan proposals with required documents.
- **Credit Appraisal** – The bank conducts thorough financial, business, and management analysis of the borrower's financial situation.
- **Credit Risk Grading (CRG)** – Borrower's trustworthiness is assessed using Bangladesh Bank's CRG system.
- **Approval & Sanctioning** – The credit proposal is reviewed by branch managers and the head office credit committee before final approval.
- **Loan Disbursement** – Once approved, funds are disbursed under specific terms and conditions.
- **Monitoring & Supervision** – Continuous monitoring of loan utilization, repayment behavior, and early warning signals.
- **Recovery & Classification** – If a default occurs, loans are classified, and recovery steps (such as reminder letters, rescheduling and legal action) are taken.

5.2 Tools and Techniques for Credit Risk Assessment

BASIC Bank applies several tools to minimize risk exposure:

- **Credit Risk Grading (CRG):** Standardized borrower rating system.

- **Financial Statement Analysis:** Liquidity, profitability, and solvency ratios are analyzed.
- **Collateral Valuation:** Collateral adequacy and legal statutes are checked.
- **Portfolio Diversification:** Loans are spread across different industries to reduce concentration risk.
- **Loan Review Mechanism:** Periodic internal audit and Bangladesh Bank inspection.

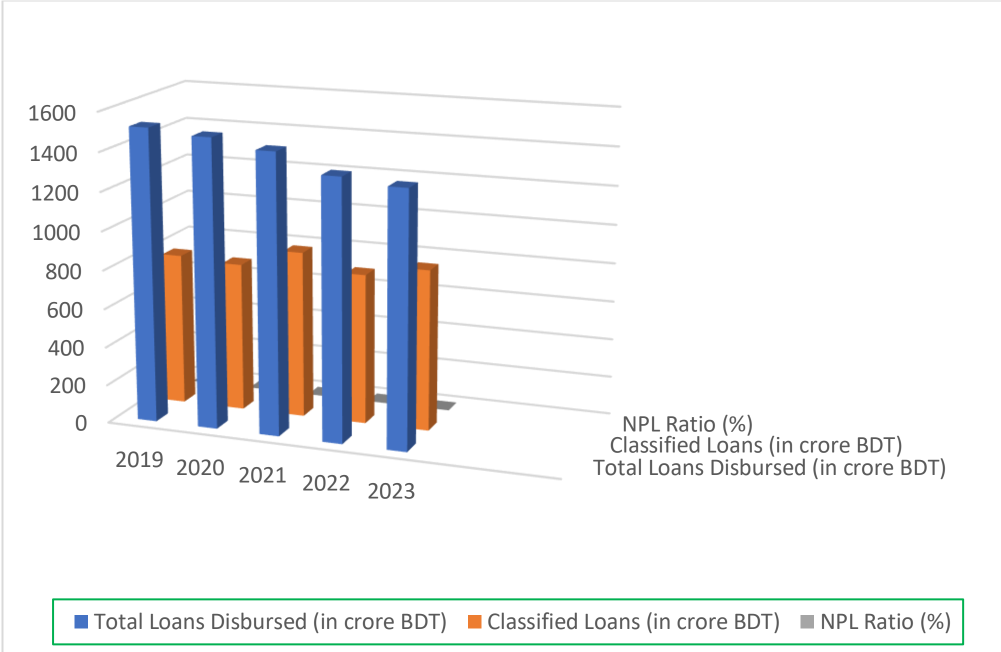
5.3 Non-Performing Loans (NPL) Scenario

Like other state-owned banks in Bangladesh, BASIC Bank faces a challenge with rising non-performing loans (NPL).

- As per Bangladesh Bank data, the NPL ratio in state-owned banks is significantly higher compared to private commercial banks.
- BASIC Bank has been working to reduce its NPL through loan restructuring, rescheduling policies, and strengthening its recovery team.
- Special focus is given on default loan management, early warning systems, and recovery drivers.

Year	Total Loans Disbursed (in crore BDT)	Classified Loans (in crore BDT)	NPL Ratio (%)
2019	1517.70	789.49	52.01%
2020	1491.26	771.22	51.72%
2021	1444.52	863.78	59.80%
2022	1345.95	778.67	57.85%
2023	1315.89	833.33	63.35%

Table 1: Non-Performing Loan (NPL) Trend of BASIC Bank Ltd.



Graph-1: Non-Performing Loan (NPL) Trend of BASIC Bank Ltd.

Observations:

1. **Decline in total loans disbursed**:
    - Loans decreased progressively from 1517.70 crore in 2019 to 1315.89 crore in 2023.
    - This shows a reduction of **201.81 crore BDT (~13.3%)** over five years.
2. **Classified loans trend**:
    - Classified loans remained high, with a slight dip in 2020 (771.22 crore), then peaked in 2021 (863.78 crore) and again rose in 2023 (833.33 crore).
    - This indicates challenges in credit recovery and risk management.
3. **NPL Ratio trend**:
    - NPL ratio started at 52.01% in 2019, slightly decreased in 2020 (51.72%), then sharply increased to 59.80% in 2021, slightly fell to 57.85% in 2022, and reached **63.35% in 2023**.

    - This shows a **worsening credit quality**, with more than half of the bank's loan portfolio being non-performing in recent years.

Key Insights:

- Despite decreasing loan disbursement, the **NPL ratio is rising**, indicating inefficiencies in credit risk management.
- The peak in 2021 (59.80%) may be linked to pandemic-related repayment difficulties.
- The bank's **risk exposure remains very high**, with NPL consistently above 50%, which is concerning for solvency and profitability.

5.4 Strengths of Credit Risk Management in BASIC Bank

 Well-structured loan approval and monitoring process.

 Compliance with Bangladesh Bank regulations.

 Dedicated credit risk management department.

 Introduction of digital monitoring tools in loan tracking.

5.5 Weaknesses and Challenges

 High level of classified loans (default loans).

 Weak borrower screening due to political influence in loan sanctioning.

 Insufficient manpower in recovery department.

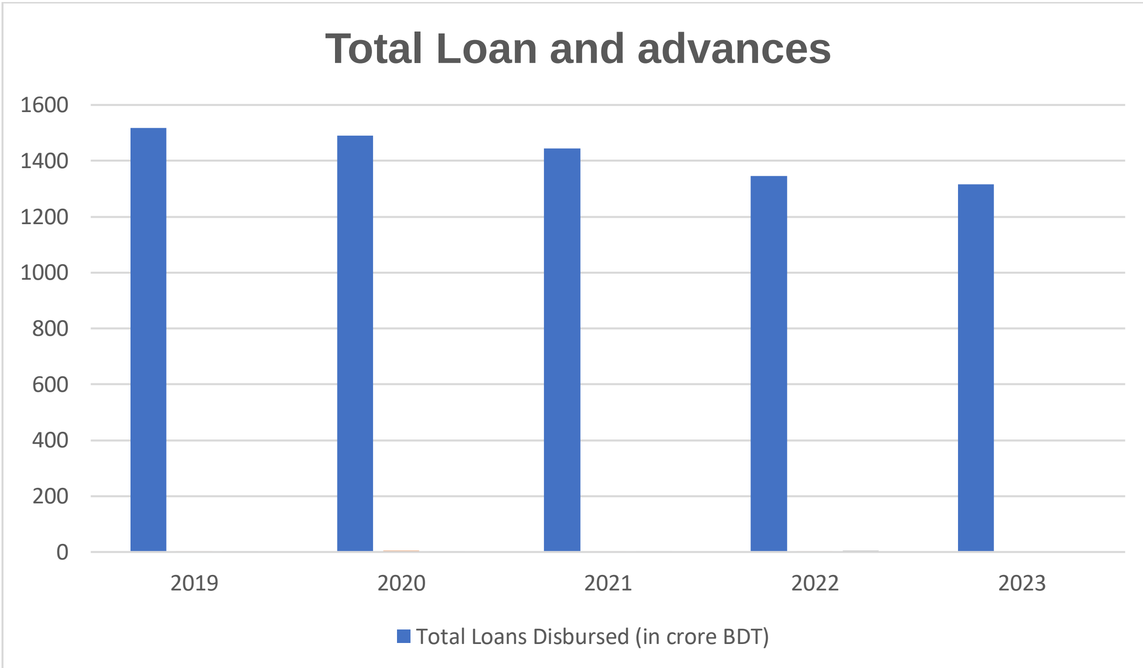
 Dependence on collateral rather than cash flow analysis.

 Lack of technological integration in some branches.

CHAPTER: 6

DATA ANALYSIS, FINDINGS & DISCUSSION

6.1: Amount of Total Loans and Advances at Basic Bank Last Five Years:



Graph-2: Loan and Advances total of Basic Bank.

- The data shows a **continuous decline** in the total loans disbursed by Basic Bank Limited from 2019 to 2023.
- From 1517.70 crore in 2019, the disbursement dropped to 1315.89 crore in 2023.
- This is a decrease of **201.81 crore BDT over five years**, approximately **13.3% reduction**.

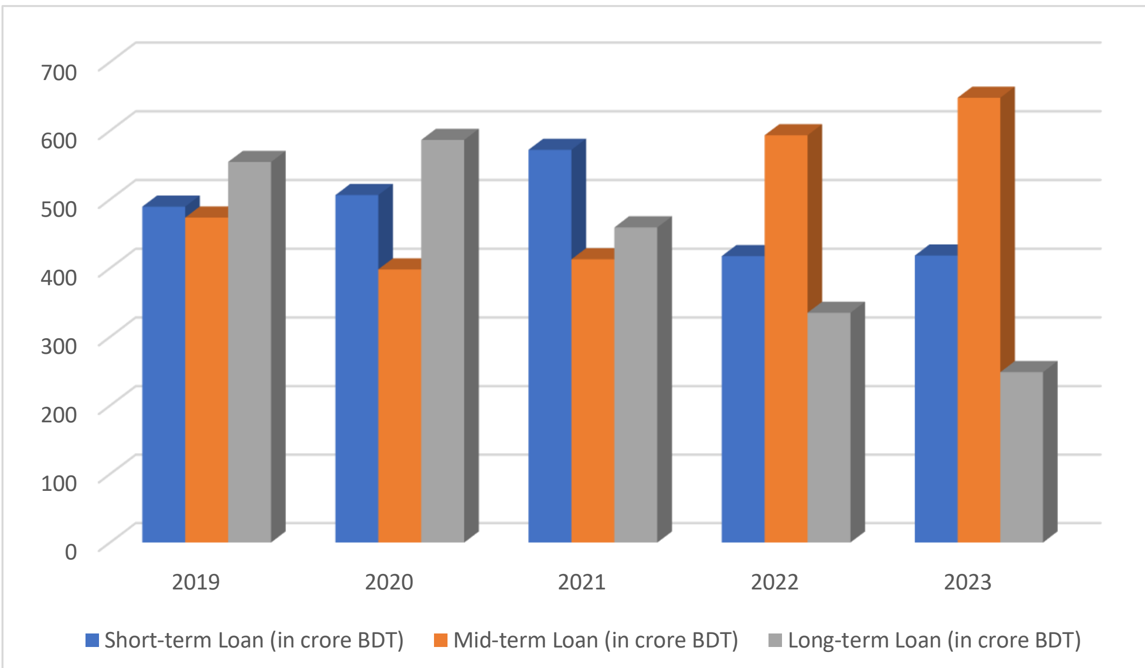
Possible Reasons for Decline

- **Stricter lending policies:** The bank may have tightened credit approval due to high risk or previous losses.
- **Economic slowdown:** Reduced demand for loans due to economic conditions.
- **High default rates:** Rising NPLs could have made the bank cautious in lending further.

6.2: Amount of Short Term, Mid Term and Long-Term Loan at Basic Bank Last Five Years:

Year	Short-term Loan **(in crore BDT)**	Mid-term Loan (**in crore BDT)**	Long-term Loan (**in crore BDT)**
2019	489.51	473.68	554.51
2020	506.39	398.28	586.60
2021	572.25	412.94	459.33
2022	417.48	593.37	335.10
2023	418.45	648.03	248.77

Table 2: Short- term Mid-term & Long- term Loan



Graph-3: Short-term, Mid-Term & Long-Term Loan.

Interpretation

1. **Short-term Loans**
   - Grew from 489.51 crore in 2019 to a peak of 572.25 crore in 2021.
   - Then dropped sharply to around 417–418 crore in 2022–2023.

- **Indicates an initial focus on quick-return loans**, followed by a more cautious approach after 2021.

2. **Mid-term Loans**
    - Declined from 473.68 crore in 2019 to 398.28 crore in 2020.
    - Then **rose significantly**, reaching the highest level of 648.03 crore in 2023.
    - **Shows a strategic shift toward mid-term lending**, possibly because it balances risk and profitability better than long-term loans.
3. **Long-term Loans**
    - Peaked at 586.60 crore in 2020, then **consistently decreased** each year to just 248.77 crore in 2023.
    - **Suggests the bank is moving away from long-term financing**, likely due to high default risk and slow fund recovery.

Overall Insight

- The composition of the loan portfolio has **shifted over time**:
    - From **long-term heavy** in 2019–2020
    - To **mid-term dominant** in 2022–2023.
- This reflects a **risk-averse strategy**, focusing on loans with moderate duration and quicker turnover while **reducing exposure to long-term credit risk**.

6.3 Provisioning:

The provisioning rate employed in Basic Bank is presented in the subsequent table:

A. General Provisions (Performing Loans)

Particulars	Provision Rate
Consumer Financing – House Financing	1%
Consumer Financing – Loans to Professionals	2%
Consumer Financing – Other than House Finance & Loans to Professionals	2%
Small and Medium Enterprise Financing (SMEF)	0.25%

Short-term Agriculture & Micro Credit	1%
Loans to BHs / MBs / SDs against Shares etc.	2%
All other Credit	1%
Special Mention Account (SMA)	0.25% / 1%

B. Specific Provisions (Non-performing Loans)

Classification	Loan Type	Provision Rate
Substandard	Short-term Agriculture & Micro Credit	5%
Substandard	Other than Agri & Micro Credit	5% / 20%
Doubtful	Short-term Agriculture & Micro Credit	5%
Doubtful	Other than Agri & Micro Credit	5% / 20% / 50%
Bad & Loss	All Types	100%

Table 3: Rate of Provisioning

Interpretation of Loan Loss Provisioning Rates

Banks are required to maintain **loan loss provisions** as a safeguard against potential credit losses. These provisions are categorized into two types — **General Provisions (for performing loans)** and **Specific Provisions (for non-performing loans)**. The rates are prescribed by Bangladesh Bank to ensure banks remain financially sound.

A. General Provisions (Performing Loans)

- These apply to loans that are **currently performing (not overdue or defaulted)**.
- They act as a **preventive cushion** against any unforeseen losses that may arise in the future.
- The rates vary by loan type based on their perceived risk:
    - **Lower-risk loans** like SME financing require only **0.25%** provision.
    - **Consumer loans** require **1%–2%**, depending on the category.

    - **Special Mention Accounts (SMA)**, which show early warning signs, require a **higher 0.25% to 1%** provision.

Key Insight:

General provisions are **small because the loans are not yet defaulted**, but they help build financial resilience for the bank.

B. Specific Provisions (Non-performing Loans)

- These apply to loans that have become **classified (defaulted)** and are categorized as **Substandard, Doubtful, or Bad & Loss**.
- These provisions reflect **expected credit losses** and increase as the loan's recovery possibility decreases:
    - **Substandard loans** require **5% to 20%** provision.
    - **Doubtful loans** require **5% to 50%** provision.
    - **Bad & Loss loans** require **100%** provision, as they are considered fully unrecoverable.

Key Insight:

Specific provisions are **much higher because the loans are already risky**, ensuring banks set aside enough funds to absorb losses and protect depositors.

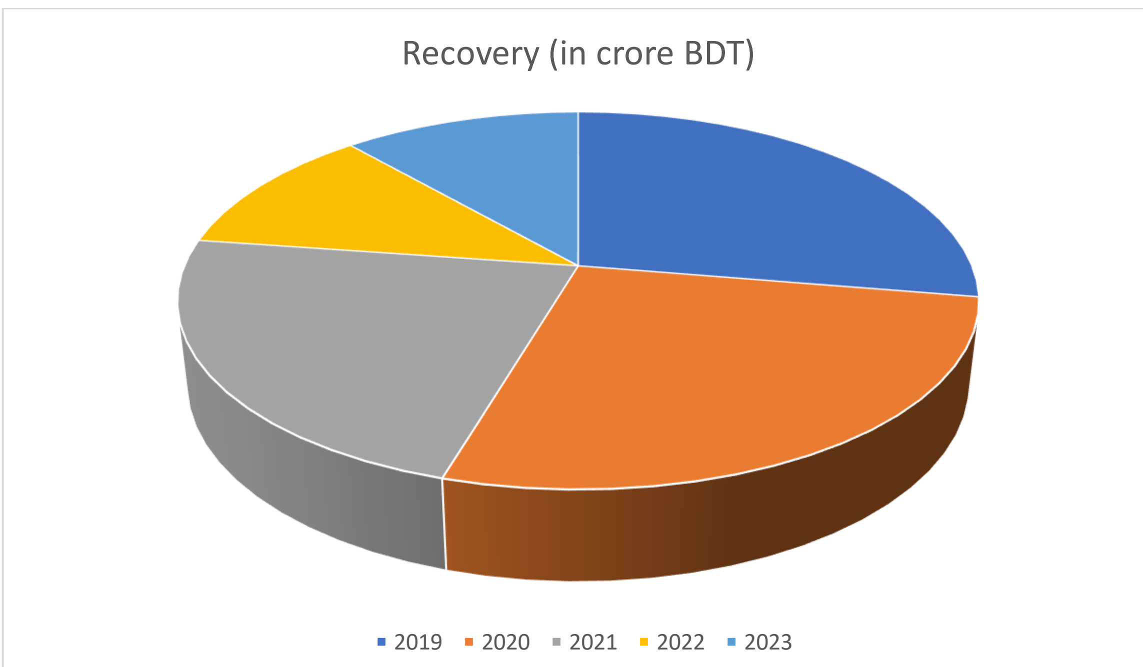
Overall Summary

- **General Provisions** = preventive reserve for performing loans.
- **Specific Provisions** = corrective reserve for non-performing loans.
- This system ensures banks **recognize loan losses early, maintain capital adequacy, and remain financially stable**.

6.4: Recovery of the Loan at Basic Bank Five Years:

Years	Recovery (**in crore BDT)**
2019	694.37
2020	676.95
2021	570.47
2022	283.09
2023	287.69

Table 4: Recovery of loan



Graph 4: The recovery of Loan.

Interpretation

- The bank's loan recovery amount has shown a steady downward trajectory over the five years. From 694.37 crore in 2019, recovery fell to 287.69 crore in 2023, representing a significant overall decline.
- The most drastic drop occurred between 2021 and 2022, when recovery nearly halved from 570.47 crore to 283.09 crore, signaling potential deterioration in loan quality and collection efforts.
- Recovery in 2023 (287.69 crore) shows a slight improvement compared to 2022, but the level remains far below the pre-2021 figures, indicating that full recovery momentum has not yet returned.

Key Insight

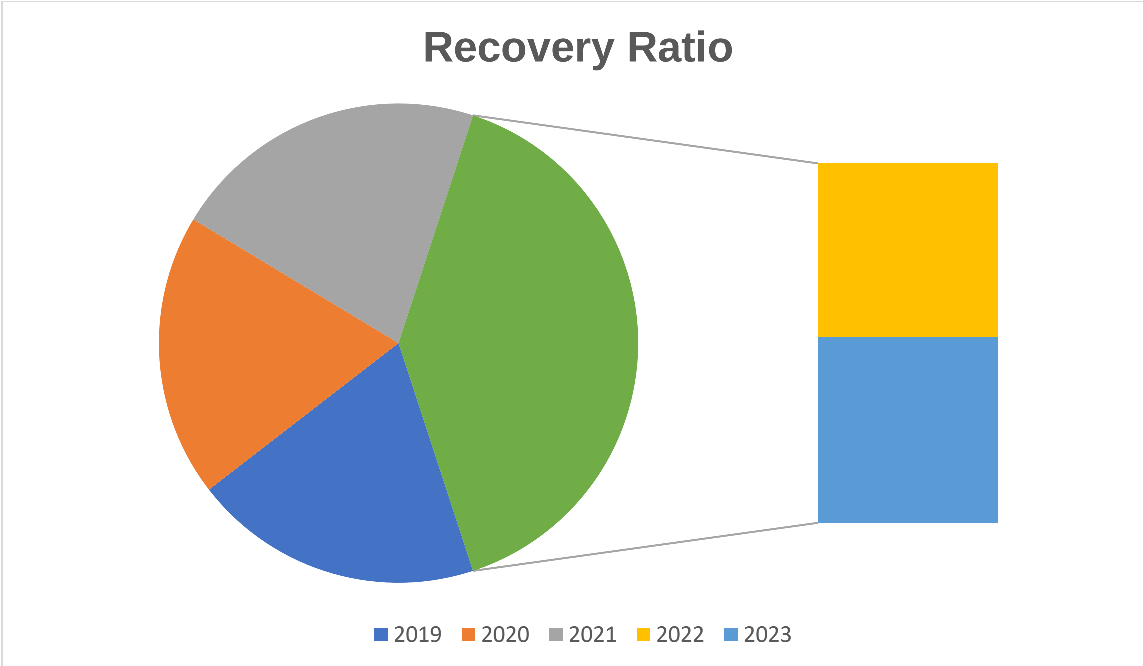
The trend suggests that loan recovery efficiency at BASIC Bank has weakened over time, which could be a consequence of rising default rates, weak credit monitoring, or broader economic constraints. The bank needs to strengthen its recovery strategies to improve financial stability.

6.5 Recovery ratio of Total Loan Disbursement at Basic Bank Last Five Years:

4.

Year	Total Disbursements (**in crore BDT)**	Total Recovery (**in crore BDT)**	Ratio
2019	789.49	694.37	21%
2020	771.22	676.95	49%
2021	863.78	570.47	60%
2022	778.67	283.09	28%
2023	833.33	287.69	22%

Table 5: The recovery Ratio of Loan.



Graph 5: Recovery Ratio of Loan.

Interpretation

- The recovery-to-disbursement ratio has shown high volatility over the five years. After a modest level in 2019 (21%), it rose sharply to 49% in 2020 and 60% in 2021, reflecting a temporary improvement in recovery efficiency.
- Post-2021, the ratio dropped drastically, falling to 28% in 2022 and further to 22% in 2023, despite relatively stable disbursement levels. This suggests rising loan defaults or weak collection mechanisms in recent years.
- While disbursement volumes remained relatively high, recovery did not keep pace, which could increase the bank's credit risk exposure and contribute to higher non-performing loans (NPLs).

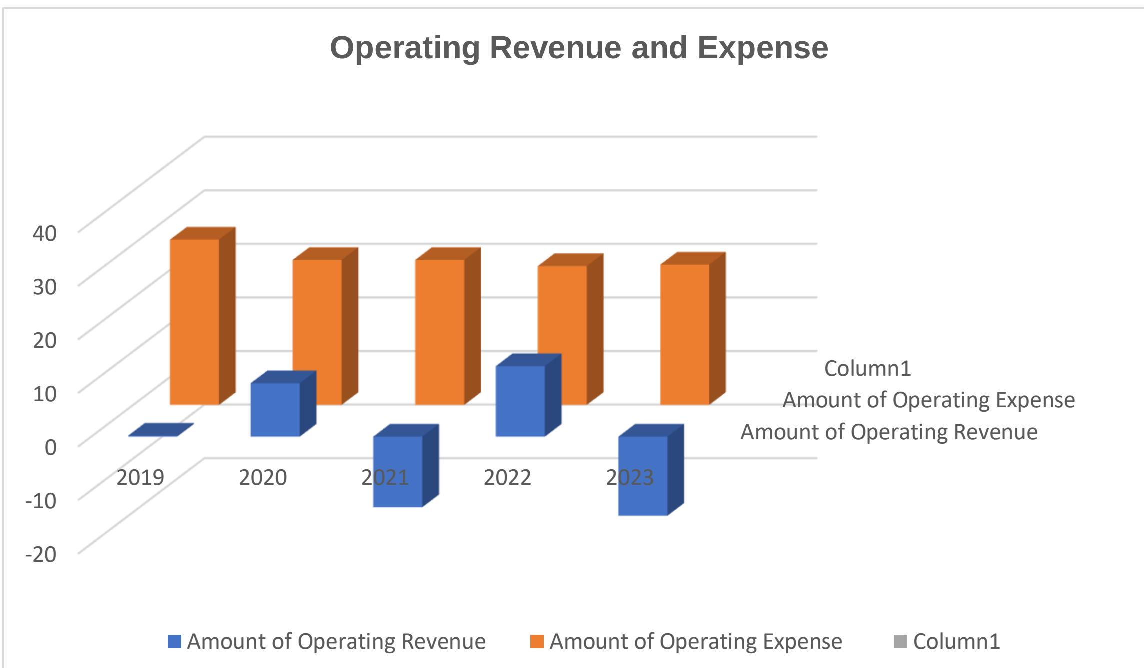
Key Insight:

The trend indicates that BASIC Bank's loan portfolio quality has weakened, as recovery efficiency has not matched the volume of loans disbursed. Strengthening credit monitoring, borrower assessment, and recovery processes is crucial to restoring financial discipline.

6.6: Analysis of Operating Revenue and Expense:

Year	Amount of Operating Revenue	Amount of Operating Expense
2019	.18	30.85
2020	9.97	27.06
2021	-13.17	27.06
2022	13.16	25.92
2023	-14.76	26.19

Table 8: Operating Revenue and Expense



Graph 6: Operating Revenue and Expense.

Interpretation

The bank's operating expenses remained relatively stable, hovering between 25–31 crore BDT throughout the five years, indicating steady administrative and operational cost levels.

- Operating revenues showed sharp fluctuations, including negative earnings in 2021 and 2023. This suggests instability in the bank's core income-generating activities, possibly due to high provisioning costs or poor loan performance.
- In 2021 and 2023, the bank recorded operating losses (negative revenue), while only 2020 and 2022 showed substantial positive revenue. The very low revenue in 2019 (0.18 crore) also indicates weak operational efficiency at that time.

In most years, expenses significantly exceeded revenues, which undermines profitability and raises concerns about the bank's cost control and revenue sustainability.

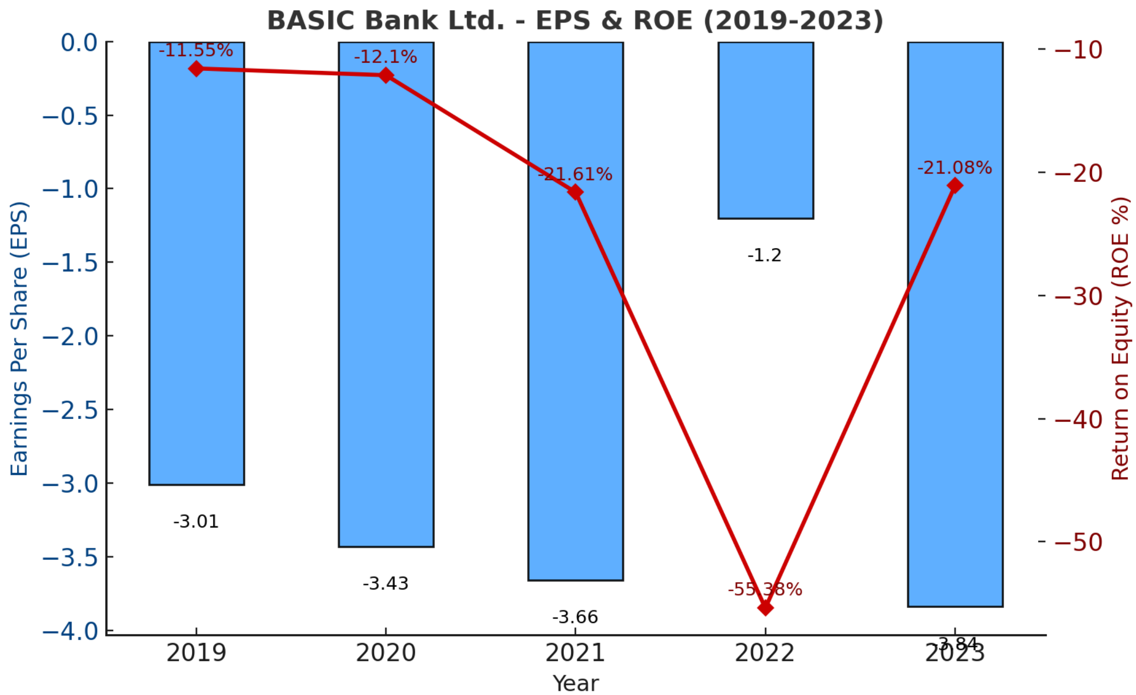
Key Insight:

This trend reveals that BASIC Bank's operational performance has been unstable, with recurring losses and consistently high costs. Stronger income diversification, cost rationalization, and efficiency improvements are needed to achieve sustainable profitability.

6.7: Analysis of Earnings Per Share (EPS) and Return on Equity (ROE):

Year	Earnings Per Share (EPS)	Return on Equity (ROE)
2019	(3.01)	−11.55%
2020	(3.43)	−12.10%
2021	(3.66)	−21.61%
2022	(1.20)	−55.38%
2023	(3.84)	−21.08%

Table 9: Earnings Per Share (EPS) and Return on Equity (ROE).



Graph 7: Earnings Per Share (EPS) and Return on Equity (ROE).

Interpretation of EPS and ROE (2019–2023)

The financial performance of BASIC Bank Limited from 2019 to 2023 shows a persistent deterioration in profitability and shareholders' returns, as reflected through its negative Earnings Per Share (EPS) and negative Return on Equity (ROE) throughout the entire period.

- In 2019, the bank reported an EPS of (3.01) and ROE of −11.55%, indicating losses and poor returns to shareholders.
- In 2020, losses increased slightly with EPS (3.43) and ROE −12.10%, showing that the bank could not recover from its financial stress.
- In 2021, the situation worsened sharply with EPS (3.66) and ROE −21.61%, suggesting further erosion of shareholders' equity and declining operational efficiency.

- In 2022, although the loss per share narrowed to (1.20), ROE dropped drastically to −55.38%, which indicates a severe capital impairment and weak capacity to generate profit from equity.
- In 2023, losses deepened again with EPS (3.84) and ROE −21.08%, reflecting a continued inability to generate positive returns despite restructuring efforts.

Overall, these figures highlight serious financial instability, weak asset quality, and high credit risk exposure. The consistently negative ROE demonstrates that the bank destroyed rather than created shareholder value, which raises significant concerns regarding its credit risk management effectiveness and sustainability of operations.

6.8: Assets Portfolio

Particulars (2023)	**Total**
Assets:	
Cash in hand	9,143,834,663
Balance with other banks and financial institutions	1,784,241,675
Investment	20,278,962,943
Loans and Advances	131,524.829,699
Fixed assets including premises, furniture & fixtures	447,259,333
Other assets	4.978.458.181
Non-banking assets	23,858,490
Total Assets	168,181,444.984

 The largest portion of assets is in Loans and Advances (≈78%), showing that the bank's main income-generating activity is lending.

 Investments hold a significant share, indicating diversification to ensure stable returns.

 Cash in hand and balances with other banks ensure liquidity for daily operations.

 Fixed assets and non-banking assets are very small portions, mainly for operational support.

 Other assets represent miscellaneous receivables and accrued income.

CHAPTER: 7

FINDINGS, RECOMMENDATIONS & CONCLUSIONS

Findings of the Study

The study uncovers several alarming yet insightful findings regarding the bank's credit risk management and overall financial performance. Over the period from 2019 to 2023, the bank's loan disbursements have shown a continuous downward trend, falling from BDT 1517.70 crore in 2019 to BDT 1315.89 crore in 2023. This consistent decline reflects a shrinking credit portfolio, suggesting either increased risk aversion or a diminished lending capacity. Such a contraction in credit supply not only hampers business growth but also indicates underlying weaknesses in credit planning and strategic decision-making.

Moreover, the bank has been struggling with persistently high levels of classified loans, fluctuating between BDT 770 and 860 crore, with a peak of BDT 863.78 crore recorded in 2021. This indicates ineffective loan recovery measures and poor asset quality control. Alongside this, the Non-Performing Loan (NPL) ratio has worsened dramatically, climbing from 52.01% in 2019 to an alarming 63.35% in 2023. Since an NPL ratio above 10% is considered critical in the banking sector, this exceptionally high-level signals severe inefficiency in credit risk assessment, borrower appraisal, and post-disbursement monitoring.

Additionally, the analysis reveals multiple operational and financial concerns. The bank has shown weak profitability over several years, reflected in negative EPS and ROE figures, while its operating revenue has consistently failed to meet overall expenses, resulting in a revenue–expense mismatch. The loan portfolio is overly concentrated in mid-term loans, with a noticeable decline in long-term lending, which increases the bank's vulnerability to credit shocks. Furthermore, its heavy dependence on loans and advances has created asset concentration risk, leaving a limited liquidity buffer to absorb unexpected losses.

Overall, these findings portray a concerning scenario of deteriorating asset quality, inefficient credit risk management, and fragile financial resilience. Without immediate strategic reforms in credit policies, recovery mechanisms, and portfolio diversification, the bank's long-term sustainability and stakeholder confidence may remain at significant risk.

Recommendations of the Study

 Credit **Risk Management:**

- Strict borrower appraisal, early warning systems, and increased provisions for SMA and high-risk loans.
- Enhance provisioning policies, especially for SMA and high-risk loan categories.
- Establish robust early warning systems to detect potential defaults.

 Portfolio **Diversification:**

- Balance short-, medium-, and long-term loans and diversify investments to maintain liquidity.
- Expand investment channels to minimize concentration risk and improve liquidity.
- Diversify investment portfolios to enhance liquidity and reduce concentration risk.

 Loan **Recovery & Collection:**

- Strengthen the efficiency and capacity of loan recovery teams.
- Implement an automated loan tracking and follow-up system to streamline processes and enhance efficiency.
- Enforce strict legal measures against chronic defaulters to ensure timely recovery.

 Operational **Efficiency & Profitability:**

- Cost reduction, alternative income sources, and improved revenue collection mechanisms.
- Streamline internal processes to reduce operational expenses.
- Identify new sources of income beyond traditional banking activities.
- Strengthen revenue collection and monitoring frameworks to sustain profitability.

 Asset **Quality & Monitoring:**

- Conduct regular stress-testing to assess resilience against financial shocks.

- Perform periodic portfolio reviews to detect weaknesses early.
- Maintain adequate liquidity buffers to mitigate overall risk exposure.

Conclusions of the Study

This study highlights that the bank is undergoing profound financial and operational distress, which threatens its overall sustainability and market standing. The persistently high level of non-performing loans (NPLs) has severely weakened its asset base and eroded profitability. Loan quality has deteriorated significantly over the past few years, reflecting gaps in credit appraisal, monitoring, and risk assessment processes. Simultaneously, the bank's recovery mechanisms remain inefficient, with delayed follow-ups and inadequate enforcement measures, resulting in prolonged default cases and further capital strain.

In addition to these operational weaknesses, the bank's loan portfolio is excessively concentrated in a limited number of sectors and borrowers. This lack of diversification amplifies credit risk exposure and leaves the institution vulnerable to sector-specific downturns and market volatility. The absence of a well-structured asset diversification strategy restricts its ability to withstand financial shocks, further undermining stability and investor confidence.

To reverse this trajectory, the bank must urgently strengthen its credit risk management framework by enforcing rigorous borrower evaluations, setting up robust early warning systems, and increasing provisions for high-risk loans. A more balanced and diversified lending strategy should be implemented to reduce concentration risk and support liquidity. Recovery performance must be enhanced through stronger recovery teams, automated loan tracking systems, and strict legal enforcement against persistent defaulters. Furthermore, improving operational efficiency by reducing costs, broadening income sources, and enhancing revenue collection mechanisms will be critical to regaining profitability.

If executed effectively, these measures will improve asset quality, lower NPL levels, enhance profitability, and ultimately restore the bank's financial stability and safeguard shareholder value in the long term.

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