Sonargaon University (SU)
Dhaka, Bangladesh

Thesis Report
on
MEASUREMENT OF ASSET QUALITY
(A STUDY ON SELECTED PVT. COMMERCIAL BANK'S)

Submitted by:

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Letter of Transmittal

15 January, 2022
Md. Shahbub Alam Sony
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Subject: Submission of project paper

Dear Sir,

This is my pleasure to submit the study report on **Measurement of Asset Quality of Commercial Bank – Study on Selected pvt.** Commercial Banks, which I was assigned. This is a great chance for me to acquire knowledge and experience in respect of performing this report.

This is assigned to me as partial requirement of CAMEL for the competition of MBA program. Throughout the study I have tried with the best of my capacity to accommodate as much information and relevant issues as possible and tried to follow the instructions you have suggested. I tried my best to make this report as much information as possible. I sincerely believe that it will satisfy your requirements. However sincerely I believe that this report will serve the purpose of my project submission program.

I gave my best efforts to achieve the objective of this report and hope that my endeavor will serve the purpose. Besides, I have followed your remarks and instructions very carefully while preparing this report. I tried the best to maintain your schedule, format and discipline.

Thank you for your kind consideration.

Sincerely yours

……
MD. Borjul Sheikh
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Supervisor's Declaration

This is to certify that, MD. Borjul Sheikh, student of Master's of business administration (MBA), major in Finance of Sonargaon University (SU) has completed this project paper on **Measurement of Asset Quality of Commercial Bank—Study on Selected Pvt. Commercial Bank's .**He has completed this project satisfactorily under my supervision as he partial fulfillment for the award of MBA degree.

He has done his job according to my supervision and guidance. He has tried his best to do this successfully. I think his study will help him in future to go build his career.

I wish him every success in life.

Md. Shahbub Alam Sony
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Student's Declaration

I have declare that project paper on **Measurement of Asset Quality of Commercial Bank—Study on Selected Pvt. Commercial Bank's** include the result of my own works, pursued under the supervision of **Md. Shahbub Alam Sony ,Lecturer of Department of Business Administration of MBA Program, Sonargaon University (SU).**

I also like to declare that this report is my original work and is prepared for academic purpose which is a part of MBA program.

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Acknowledgement

At first I would like to thank almighty ALLAH who gave me to prepare this term paper. This report has created a deal of interest to me.

Preparing this report was exciting and hard work at the same. It is for the first time I have been able to gather real life experience working on a report.

I would like to give my heartiest gratitude to **Md. Shahbub Alam Sony, Lecturer of Department of Business Administration in MBA program, Sonargaon University (SU)** is my internship supervisor, for his kind concern, valuable time, advice, endless endeavor and guidance throughout the period and making of the report. I also like to thank my honorable teacher **Md. Abul Kalam, Dean of Business Facultry of Sonargaon University (SU).** Their contribution to me just can be acknowledge but never be compensated. My honorable Coordinator of MBA Program **Md. Masud Rana sir,** My honorable teacher **Md. Rasel Hawlader sir ,** lecturer of department of business administration and all the faculty member of my Sonargaon University (SU).

I would like to thank the authority to the Sonargaon University (SU) for allowing me to do my report here.

Executive summary

Asset quality is a single part of CAMELS rating system. Estimation of advantage nature of business banks can assume a huge job actualizing the more extensive idea of supportable financial advancement in Bangladesh. These days each business banks in Bangladesh rehearsed this term to estimate their important resource quality with the end goal of verified and avoid the default performing and non-performing monetary resources.

The solidification wonder in the Bangladesh business banking administration industry is planned for guaranteeing money related strength as the business experienced extreme credit issues and surprising misfortunes in the past with various advance seriousness because of disparate banks' budgetary procedures. This examination analyzed and assesses banks resource quality and execution in business banks in Bangladesh utilizing optional information got from the yearly reports of various business banks.

The examination embraced the utilization of proportions as a proportion of bank execution and resource quality since it is an evident methods for measuring the organizations' degree of exercises while the information were broke down utilizing the Pearson connection and relapse instrument of the SPSS 17.0The discoveries uncovered that advantage quality impacted bank execution. The venture paper closes with certain discoveries and proposals approaches that would empower income enhancement, limit credit hazard, and urge banks to limit their liquidity property.

I have presented this study report on the basis of working knowledge. Chapter one provides the complete overview of the report. Thus includes objectives, methodology, Scope and limitations of the report .In second chapter discussed about the literature review of asset quality. In third chapter I have discussed about the conceptual framework of the asset quality In the chapter four I have discussed about the Analysis of asset quality of selected Pvt. Commercial banks. In the last chapter there are some findings, recommendations or conclusion of the report. I have finished my project paper work mainly on fifth chapter.

Acronyms

Abbreviation	Explanation
CAMELS	Capital adequacy, asset quality, management quality ,earnings, liquidity, sensitivity .
SEF	Sustainable Energy Finance
ROA	Return On Assets
ROE	Return On Equity
PCBs	Private Commercial Banks
CAPM	Capital Assets Pricing Model
FIs	Financial Institutions
OBL	One Bank Limited
SEB	Southeast Bank limited
ABBs	AB Banks Limited
AQCR	Asset Quality Classification Ratios
TCR	Total Classification Ratio
WCR	Weighted Classification Ratio

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Chapter 1

Introduction Part

Introduction

The present universe of business activity is described by significant measure of vulnerability with respect to the interest, supply and market cost as there are operational expenses for each business exercises while business data is exorbitant and not equitably disseminated. So also, every firm has its own points of confinement on the creation limit and innovation regarding center competency which decide the idea of ventures and financing hazard. The above issues force the prerequisite for the arrangement of adequate resources for help different parts of business activities. The financial business isn't resistant from this market slants as their stock in exchange is cash which they bargains as far as stores from different monetary specialists just as forward loaning to various arrangement of financial operators in types of advances and advances. Be that as it may, this bank cash creation procedure requires satisfactory resource for survival, sustenance and advancement as its shape the fortune of the firm in both the short and long keep running of business process . Resource quality is a part of bank the executives involves the assessment of a firm resource so as to encourage the estimation of the level and size of acknowledge hazard related for its activity. It identifies with the left-hand side of a bank monetary record and concentrated on the nature of credits which gives profit to a bank. Resource quality and credit quality are two terms with essentially a similar significance while its administration is considered critical by the financial division. As indicated by the Basle Committee on Banking Supervision, the center standards for successful financial supervision included twenty-five center standards out of which seven are intended to address the significant issues of bank resource quality or credit hazard the executives (Basle, 1997). This inferred resource quality is of general worry to monetary supervisory experts in each nation all through the world. So also, Nagle (1991) determined that the issues of advantage quality may turn into the future time bomb for banks, similarly as the measures for security and adequacy which was set up by the United States Federal Reserve Board, wound up successful in 1995 which required U.S. budgetary establishments to set up resource quality observing frameworks for distinguishing conceivable rising issues of bank resource quality, and requesting banks to consistently show the advantage quality reports to the top managerial staff in order to assess the dangers related with resource quality crumbling.

This crumbling in bank resource quality influences it's working and monetary execution just as the general sufficiency of the money related framework in which it is an element. The weakening of bank resource quality emerging from the numbness of advance quality is one of the proximate reason for the Asian Financial Crisis expressed that dependent on the Standard and Poor's (S&P) 1994 worldwide FICO score reports which involve sixty-one nations' money related frameworks, Banking foundations dwelling in a nation with slight financial frameworks should give more consideration to overseeing resource quality so as to warrant the sound improvement of the financial business. this worldwide pattern, Bangladesh Bank(BB) throughout the years has built up a few measures planned for giving sound financial condition and protecting different partners enthusiasm for the monetary framework. In any case, in spite of their endeavors, the financial framework keeps on encountering a few hitches that disintegrate speculators and investors, for example, the rescue of Research Journal of Finance This financial test raised an exploration enquiry on the idea of the connection between banks resource quality and execution in Bangladesh because of the fundamental idea of banking activity in the budgetary intermediation procedure and improvement. Numerous business banks has consented to an arrangement with Bangladesh bank to dispense the earth – agreeable resource quality estimation and banking execution.

Origin of the study:

The commercial bank provides all types of support to the service holders according to its asset quality strategy. Some selected commercial banks have well managed conduction in the field of trade, commerce, industry and business of the country. The bank is being managed and operated by the group of highly skilled, educated and professional team with diversified experience in finance and banking some selected private commercial bank has already achieved tremendous progress with past five years of operation. Commercial bank has already build up reputation as one of quality service provider country. At present has real time online banking branches about to assets quality services network throughout the country,

there are some extra benefit provides to its creditor by the commercial bank after the maturity period commercial bank provides big amount of incentive to its credit holder and also sharing with the partner bank consortium throughout the country.

Scope of the Study

The scope of this part of limited to the overall scenario of the commercial bank this part has covered the different divisions of selected commercial bank. The present scenario of the banking industry is also covered in this part. The measurement of assets quality of commercial bank is also covered in this part. Scopes regarding to my topic

- An over view and a strategy of selected private commercial bank
- To know the conceptual framework about the assets quality of commercial bank
- It helps to anticipated the assets quality measurement according to its previous record of some selected commercial bank
- It helps to anticipated the junk loans and credit risk
- It helps to improve the assets quality management and gathered Information

Objectives of the study

- **General objectives:**

The main objective of writing this paper is to evaluate the Asset Quality Selected Private Commercial Banks. some specific objectives presented below:

Specific objectives:

a) To identify various policies to measurement of asset quality of commercial banks

b) To learned about how to measured asset quality analysis of commercial banks.

C) To fulfill the partial requirement of obtaining BBA degree under National University.

Methodology of the study

The study has been conducted by the views of banks and research institutes with unstructured discussion and secondary data from Bangladesh bank, different commercial banks in Bangladesh, published articles in different journals and renowned newspaper, and the data available in web sites as well as the annual financial report of commercial banks and other financial institutions. Moreover some data and other necessary information were collected by various books, web pages, internal new letter of the banks and international publication of the commercial banks.

Population: 59 Schedule banks in Bangladesh.
Sample size: out of 59 banks, 3 banks were selected randomly

Sampling Techniques: consistent random sampling was used to selected the sample.

Finally data were shown in different chart ,tables and graph.

Limitation of the study

This study was not free from limitations. It is important to note that these limitation have somehow contributed in developing a dazzling and outstanding report. These limitations are given below:

- Major limitation of this report was time constrained.
- The annual report and websites are the main sources of secondary information which were not enough to get valuable information to complete the report.
- There is a chance of having some mistakes in the report .I was trying to overcome those mistake and also though best effort has been applied to avoid such kind of mistakes.
- Inexperience.

Chapter 2

Literature Review

2.1 Literature review

Aboagye and Otieku (2010) states that for banks to proceed with tasks; they should profit through loaning and trustee exercises or administrations to cover their operational and financing costs, furrow back held income to fund future activities. This will upgrade the survival as well as their development and benefit

As per Achou and Tenguh (2008), non-performing advances (NPL) has a reverse association with banks' productivity. Thus, they recommended that it is of urgent significance that banks practice judicious credit chance administration and defending the benefits of the banks and secure the investors 'interests.

Csongor and Curtis, (2005) saw that utilizing the above hypothesis, banks have connected it in expanding their advance portfolio in order to limit the unsystematic credit chance which can be translated as danger of credit takers defaulting in a particular industry or geographic district all the while. The danger of an abrupt decrease in an industry or geographic locale can't be disregarded, since history has demonstrated that all things considered, sooner or later stuns may emerge without giving enough time for the banks/organizations to fence or kill the position. Consequently, it is to their greatest advantage to ensure that the convergence of portfolio isn't excessively high (crosswise over ventures, topographical areas or even individual firms).

Streeter (2000) announced that advantage quality administration is viewed as one of banks significant administration issues in 2001 dependent on oneself controlled surveys served to the individuals from American Bankers Association Board which made out of 33% of bank authorities from all U.S. banks, the consequence of the above overview adequately demonstrates that advantage quality administration is a typical issue for investors practically speaking. Likewise, Gene Miller (CEO of America Corp.) considered resource quality as the second most significant administration issue and shaped a team to explicitly deal with rising terrible resources.

Thalassinos and Liapis (2011) consider both corporate money related detailing and hazard the executives systems as necessary to estimating a bank's budgetary exhibition. Sharma (2017) contends that a bank's exhibition be estimated however a blend of monetary and human angles. Most of research, in any case, approaches the assessment of money related execution basically through an assessment of both monetary and operational criteria.

DeYoung (1997) opined that a bank's ranking is significantly affected by asset quality which is always an essential factor in rating and management evaluation. Marshall (1999) also observed that one of the key features that the best community banks hold is good quality assets. Given that bad quality assets can prompt a bank rating downgrade and that it becomes more difficult to earned depositors' trust, such banks can therefore only attract deposits by having a higher deposit rate. Together, a conclusion can be drawn: asset quality will not only influence the operating costs of banks, but will also affect the interest costs of the banks as well as their operating performance.

From the management accounting perspective, bank asset quality and operating performance are positive related because if a bank's asset quality is insufficient such will have to increase its bad debt losses as well as expend more resources on the collection of non-performing loans (Abata, 2010). When banks list the loan amount for collection, banks will incur extra operating costs from non-value-added activities so as to handle and supervise the collection process such as a regular tracking the debtor's financial status, being vigilant of the collateral value, rearranging the amortization plan, paying expenses for contract negotiation, calculating the costs to withhold etc. The costs include winning the trust from management and the public, preserving the safety and completeness of the banks, preventing the banks from being rated poor as a consequence of external affairs, reducing deposits because of a loss in clients' faith, extra costs to monitor loan quality, and higher future costs generated by the ignorance of the problems from other operations that is generated when the loan quality issues grips the attention of the senior management (Khalid, 2012).

McGoven (1993) argued that „character" has historically been a paramount factor of credit and a major determinant in the decision to lend money. Banks have suffered loan losses through relaxed lending standards, unguaranteed credits, the influence of the 1980s culture, and the borrowers" perceptions. Thus, the study suggested that bankers should make a fairly accurate personality-morale profile assessment of prospective and current borrowers and guarantors. In addition, banks could minimise risks by securing the borrower"s guarantee, using Government guaranteed loan programs, and requiring conservative loan-to-value ratios.

Bloem and Gorter (2001) suggested that a more or less predictable level of non-performing loans, though it may vary slightly from year to year, is caused by an inevitable number of „wrong economic decisions" by individuals and plain bad luck (inclement weather, unexpected price changes for certain products, etc.). Under such circumstances, the holders of loans can make an allowance for a normal share of non-performance in the form of bad loan provisions, or they may spread the risk by taking out insurance. Enterprises may well be able to pass a large portion of these costs to customers in the form of higher prices. For instance, the interest margin applied by financial institutions will include a premium for the risk of non-performance on granted loans.

Bercoff, Giovanniz and Grimardx (2002) using accelerated failure time (AFT) model in their study of Argentina"s banking sector"s weakness measured by the ratio of non-performing loans to total loans found that both bank specific indicators such as asset growth, the ratio of net worth to net assets, the ratio of operating cost to assets, exposure to peso loans, and institutional characteristics relating to private bank and foreign bank and macroeconomic variables including credit growth, foreign interest rate, reserve adequacy and monetary expansion, besides the tequila effect were reasons behind the banking fragility. Their empirical results suggested that the bank size measured by assets had a positive effect but asset growth had a negative effect on NPLs. The variables such as operating cost, exposure to peso loans, credit growth, and foreign interest rate had negative effect on NPLs. The macroeconomic variables such as money multiplier, and reserve adequacy, institutional characteristics and tequila effect had positive influence on NPLs.

Fuentes and Maquieira (1998) undertook an in-depth analysis of loan losses due to the composition of lending by 4 type of contract, volume of lending, cost of credit and default rates in the Chilean credit market. Their empirical analysis examined different variables which may affect loan repayment such as the limitations on the access to credit, macroeconomic stability, collection technology, bankruptcy code, information sharing, the judicial system, prescreening techniques, and major changes in the financial market regulation. They concluded that a satisfactory performance of the Chilean credit market, in terms of loan repayments hinges on a good information sharing system, an advanced collection technology, macroeconomic performance and major changes in the financial market regulation.

Kent and D"Arcy (2000) while examining the relationship between cyclical lending behaviour of banks in Australia argued that the potential for banks to experience substantial losses on their loan portfolios increases towards the peak of the expansionary phase of the cycle. However, towards the top of the cycle, banks appear to be relatively healthy; non-performing loans are low and profits are high, reflecting the fact that even the riskiest of borrowers tend to benefit from buoyant economic conditions. While the risk inherent in banks" lending portfolios peaks at the top of the cycle, this risk tends to be realized during the contractionary phase of the business cycle. At this time, banks" non-performing loans increase, profits decline and substantial losses to capital may become apparent. Eventually, the economy reaches a trough and turns towards a new expansionary phase, as a result the risk of future losses reaches a low point, even 5 though banks may still appear relatively unhealthy at this stage in the cycle.

Jimenez and Saurina (2003)

used legit model for analyzing the determinants of the probability of default (PD) of bank loans in terms of variables such as collateral, type of lender and bank-borrower relationship while controlling for the other explanatory variables such as size of loan, size of borrower, maturity structure of loans and currency composition of loans. Their empirical results suggested that collateralized loans had a higher PD, loans granted by savings banks were riskier and a close bank-borrower relationship had a positive effect on the willingness to take more risk. At the same time, size of bank loan had a negative effect on default while maturity term of loans, i.e., short-term loans of less than 1-year maturity had a significant positive effect on default.

Chapter 3

Conceptual Framework

Asset: An asset is any possession that has value in an exchange, specific life time, physical existence and ability to convert into cash quickly that's called asset.

Classification of assets: There are mainly two types of financial asset ; these are given below.

According to the accounting; there are two types of asset

1. Tangible asset :Tangible asset is a asset which have a physical existence. Such as building, land, machinery etc.

2. Intangible asset: Intangible asset is a asset which have no any physical existence. Such as Goodwill, copy right, trade mark, franchise etc.

Financial asset: A paper instrument represents a certain amount of monetary all financial claim of the holder against the issuer is known as financial asset.

Liquidity: Liquidity is the ability of asset to convert into cash quickly and without any price discount.

Classification of financial asset: Financial asset can be classified into two types such as

a) **Long term financial asset:** There are some long term financial assets such as Debenture, preferred stock, equity etc.
b) **Short term financial assets:** There are also some short term financial asserts. These are Treasury bill, commercial paper, certificates of deposit, repurchase agreement etc.

Financial market and it's characteristics:

Financial market: financial market is a broad term describing any market place where buyers and sellers participate in the trade of financial asset such as equities, bonds, currencies and derivatives.

A Financial market is a market in which people trade financial securities, commodities, and other fungible items of valuable at low transaction costs and at prices that reflect supply and demand.

Example: Financial market can be found in nearly every nation in the world. Sopme are very small with only a few participants while others like the new York stock Exchange (NYSE) and the forex markets – trade million dollars daily.

Characteristics of good financial market: For a good financial market ownership is not involved the importance criterion is the smooth, cheap transfer of goods and service.

a) **Time and accurate:** Time and accurate information on the price and volume of past transaction.

b) **Liquidity:** Another prime requirement is liquidity the ability to buy or sell an asset quickly and at a known price – that is a price not substantially different from the price for prior transactions assuming no new information available.

c) **Low transition cost:** Including the cost of reaching the market the actual brokerage cost and the cost of transferring the assets.

d) **Price:** Price is rapidly adjusted to new information so the prevailing price is fair since it reflect al available information regarding the asset.

Asset quality: Asset quality is a single part of CAMELS rating systems .Asset quality is a prospect of bank management activity which is express the evaluation of bank financial assets in order to advantage the assessment of the size of bank credit risk regarded with its conductions. Asset quality focused on the equality of loans which are provides bank for the purpose of earnings.

How to calculated asset quality:

There are some essential and useful ways to calculate asset quality. Banks, financial Institution and company often followedandapplied those methods to calculate the asset quality. It assess the total portion of financial asset which are employed by the own resources of commercial bank .The higher ratio of return is the better than the performance of thecommercialbank.The ratio which is considered and determined by the Basel Committee. These are given below:

The total capital ratio (Basel)=(Tier 1 Capital + Tier 2 Capital)/ (Divided by) Risk Weighted assets.

Important of asset quality:

There are some significant parts of asset quality in which are very necessary the commercial bank and other financial Institutions. A said says that a good quality of asset is very important part of the commercial bank which provides the valuable return time.Bad quality asset such as credit or loan which are not being paid on determined time.There are some consideration reasons for increasing the bad quality asset. These are…

a) Insufficient of rising NPA which create impact on appraisal of loan proposals.
b) Inadequate monitoring of the given loan or credits out.
c) Inefficient of management outflows loans on determined time.

On the other hand there are some essential important part of commercial bank which they looked very well and take some advantage from evaluations.

a) Anticipates the loan criteria for the purpose of decreasing the loan defaulters.
b) Try to earned more incentive to provides efficient management
c) To create the loyal client for the purpose of greater return.
d) Increasing the business opportunity from the competitors
e) Try to build up long term relation with the credit taker.

In the circumstances if I say above are necessary reasons to looked well of asset quality and try to increasing its efficient criteria of asset quality.

Ramification ratio of asset quality:

There are some classification ratio methods in which commercial bank and others financial institution company by followed and determined their asset quality ratio as per as their return. There are mainly two ration methods used by the commercial bank and others financial institution. These are presented below:

- Total classification ratio (TCR):
  - Total classification assets as a percentage of Tier 1 Capital +ALLL.
- Weighted Classification ratio (WCR):
  - loss is considered by 100%.
  - Doubtful is considered by 50%
  - Substandard is considered by 20%
  - As a percentage of Tier1 Capital = ALLL.

In the conclusion, above is ramifications ratio which used by the commercial bank and others financial institutions which provides financial loans or credit risk as per their size of loan categories.

CAMELS rating system:

CAMELS stand for capital adequacy, asset quality, management quality, earnings, liquidity and sensitivity.

CAMELS rating system was first developed in U.S categorize to all internal and external performance of the banks and aslo classify the overall condition of the

financial bank and other financial institution which works with the assessment of assets quality.

Camels rating system is the rating system in which help the bank administrators or the top management to evaluates or assess the overall performance of the commercial bank . camels rating system also helps to know or determined financial ability and what's their strength and weakness regarding with performance of the size of credit risk.

Factors of camels rating system:

There are mainly six factors of camels rating system which are used by the supervisory authorities of commercial bank in order to rate of financial Institution. These are presented below:

Capital adequacy: The capital adequacy refers to the adequacy of money which is measure the bank money capacity to handle the future financial crisis and losses and ability to meet all the responsibility according to it's business operations.

Asset quality: Asset quality is a single part of CAMELS rating systems .Asset quality is a prospect of bank management activity which is express the evaluation of bank financial assets in order to advantage the assessment of the size of bank credit risk regarded with its conductions. Asset quality focused on the equality of loans which are provides bank for the purpose of earnings.

Management quality: The board of directors and main administrative bodies are key person to maintaining and responsible to all successful operating function of the commercial bank. Through these issues they are responsible person for the effectiveness of the management and conducting the all performance of the business operations.

Earnings: Earning is also one the factors of camels rating system. These factors referred the earning possibility of commercial bank from different sources. If the commercial banks provide the best strategy to conduct the business and proper efficient management then financial institution will get more return from the investment securities, real estate owned, off balance sheet items**. Return on assets ratio** measure the earning of the banks.

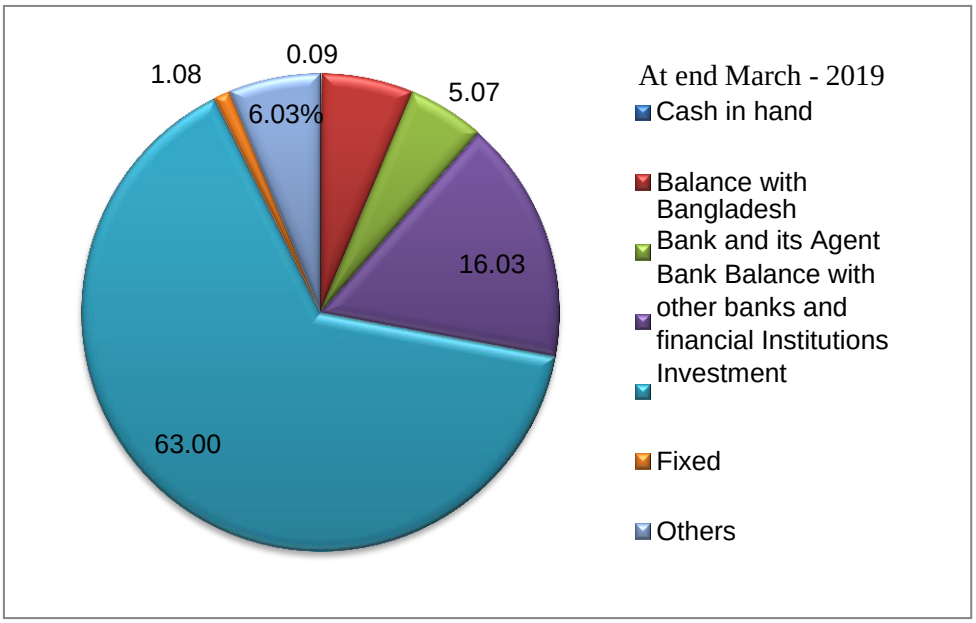
Liquidity: Liquidity is the ability of an asset to convert into cash quickly without any price discount .The ratio of cash maintained by banks and balance with the central bank to total bank determined the liquidity of the bank.

Sensitivity to market risk: Sensitivity to market risk is refer the bank sensitivity according to the changing market condition as well as adverse rate of interest such as interest rate, foreign exchange rates, commodity prices. The fixed asset creates the affect the bank and it's business operations.

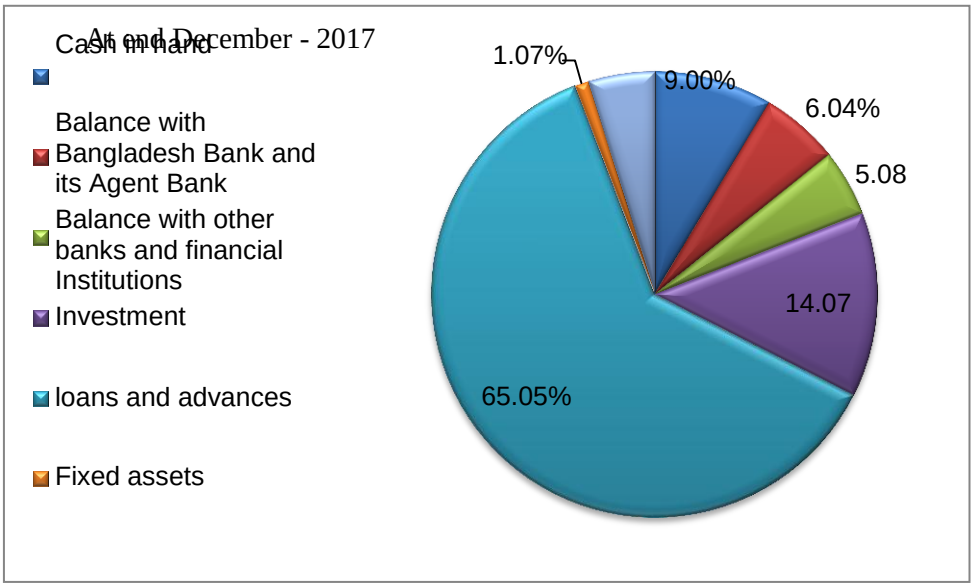
Banking Sectors performance by Bangladesh banks

There are some sectors which are performed by the Bangladesh commercial banks These are presented below:

Chart 4.4.1Asset structure of the banking of industry in Bangladesh:



Source: compilation (Aggregate B/s Account of Banking industry)FSD,BB



Source: compilation (Aggregate B/s Account of Banking industry)FSD,BB

Explanation of Assets Structure during 2020 - 2021

The balance sheet size of the banking sector7 stood at BDT 14,401.9 billion at end-March 2021, recording an increase of 10.3 percent from BDT 13,059.3 billion of end-December 2020 and 22.2 percent from BDT 11,781.2 billion of end-March 2020. Maximum portion of the banking industry's assets were held by PCBs. It is worth noting that banking sector assets-to-GDP ratio stood at 72.9 percent at end-March 2021 which was 66.1 percent at end-December 2020 8 . Loans and advances, the largest segment among the asset items, constituted 63.0 percent of total assets during the review quarter. Major portion of loans and advances were extended by PCBs. However, the share of loans and advances, as a percentage of total assets, decreased by 200 basis points at en-March 2021, compared with that of end-December 2020. The share of banks' assets with Bangladesh Bank decreased by 30 basis points while balances with other banks and financial institutions decreased by 10 basis points compared to that of end-December 2020. The share of other assets increased by 80 basis points. Besides, the share of investments in government and other securities increased by 160 basis points. 7 Taking into account only scheduled banks (57). 8 Taking into account GDP at current market price for the financial year 2019-17. 9 Non-performing loan to total loan ratio. The asset concentration ratios of Top 5 and Top 10 banks against the total banking system assets were 34.4 and 47.3 percent respectively at end- March 2021. Banking sector asset concentration has also been illustrated using Lorenz Curve and Gini Coefficient.

The position of the Lorenz

Curve, shown in Chart 2.7, indicates the presence of a moderate concentration in assets of the banking industry. The calculated Gini coefficient of 0.496 supports the presence of moderate concentration in asset. It is worth noting that, there has been no major change in asset concentration ratio in the banking sector.

Chapter 4

Analysis Of asset Quality Of Selected Pvt. Commercial Bank's

4.1 The analytical activities of asset quality measurement of selected Pvt. Commercial bank:

There is now presented analytical activities of asset quality measurement of selected private commercial bank such as South east bank, One bank limited and AB bank limited. Under this analytical activities there are some financial terms are involved as like deposit of bank, total loan, advances, total investment of a bank and total assets of a banks .there is also done analytical discussion about Return on assets and Return on equity ratio of each selected commercial banks.

Table 1: State of classification for 5 years data in million taka of South East Bank limited.

particular	2017	2018	2019	2020	2021
Deposit	189472.54	210431.03	229973.43	269828.08	298334.79
Loansand advances	147070.81	168878.46	191865.59	234316.72	267671.63
Total Investment	56378.59	58829.27	61731.63	62911.04	65609.55
Total assets	236608.40	260718.03	291798.01	339288.05	381575.68

Source: Annual report of selected Pvt.Commercial banks.

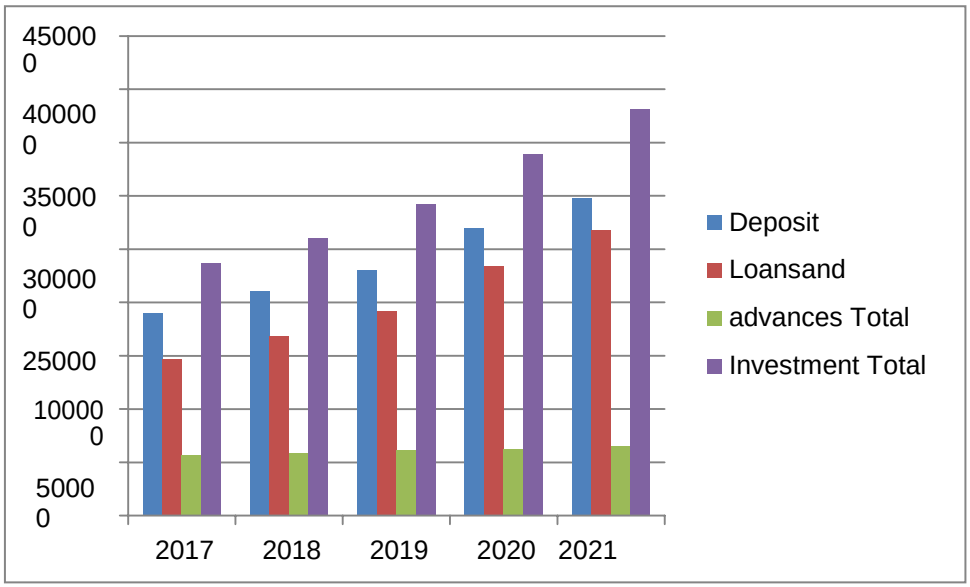


Fig:Scenario of yearly asset quality.

EXPLANATION: Table 1 express that there are some asset quality information of south east bank limited. there is now showing 5 years asset quality information such as deposit, loans and advances, investment, total assets. If we take under consideration only 2020 and 2021 years. We found that deposit, loans and advances Investment and total assets increased in 2021 from the previous years 2020.

Table2: Return On assets and return on equity OF 5 years in percentage of south east bank limited.

particular	2017	2018	2019	2020	2021
Return on asset	1.67%	1.23%	0.88	0.37%	0.69%
Return on equity	16.51%	11.86%	9.06%	4.46%	9.17%

Source: Annual report of selected Commercial Bank

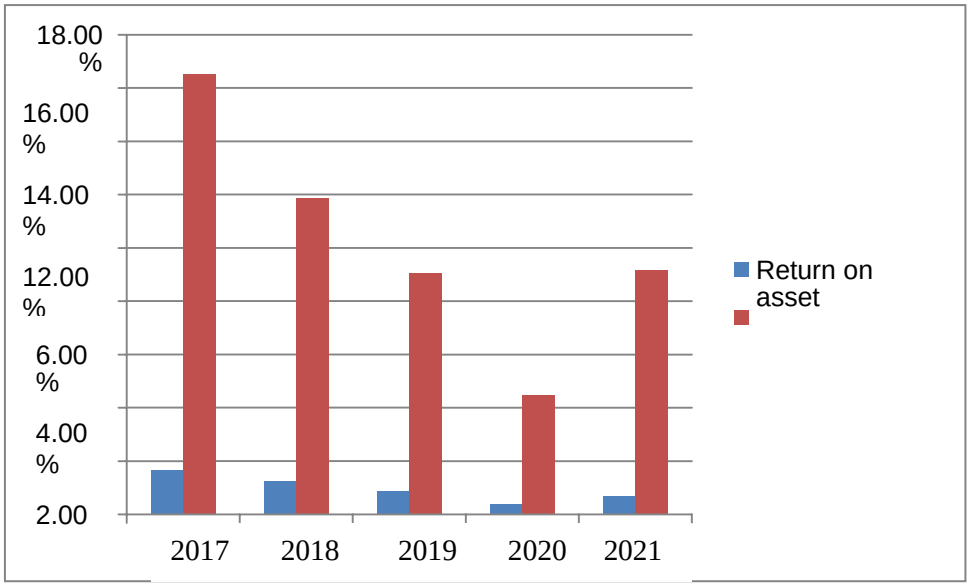


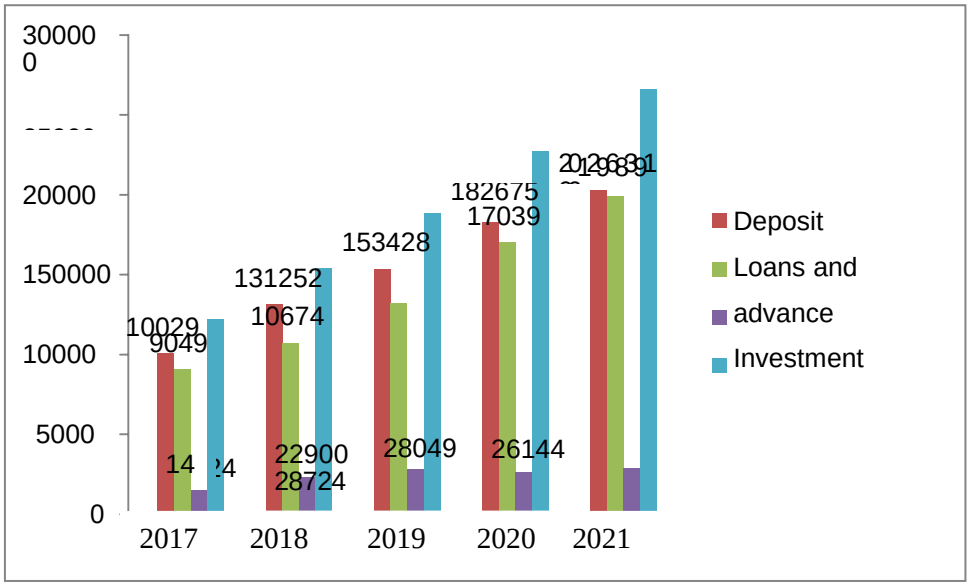
Fig: Scenario of yearly return on asset & return on equity.

Explanation: Return on asset and return on equity is the most necessary part of financial organization. here is the 5 years return on asset and return on equity ratio of south east bank limited. If we take under consideration only 2020 and 2021 financial years. We found that, return on asset ratio and return on equity in 2021 years increased as 0.69% and 9.17% from the previous years 2020. increasing return on asset ratio years by years is express its sound financial position of the organization.

Table: 3 state of classification and for 5 years asset quality data of One bank limited.

Particular	2017	2018	2019	2020	2021
Deposit	100295	131252	153428	182675	202631
Loans and advance	90499	106749	132084	170393	198909
Investment	14724	22900	28049	26144	28724
Total asset	121820	154193	188241	227202	266050

Source: Annual report of selected pvt. Commercial banks.



Fig; Scenario of yearly asset quality.

EXPLANATION: Table 3 express that there are some asset quality information of One bank limited. There is now showing 5 years asset quality information such as deposit, loans and advances, investment, total assets. If we take under consideration only 2020 and 2021 years. We found that deposit, loans and advances Investment and total assets increased in 2021 from the previous years 2020.

Table 4 Return on asset and return on equity provision of 5 years in percentage (%) of One Bank limited:

particular	2017	2018	2019	2020	2021
Return on asset	1.87	1.39	1.20	1.05	0.56
Return on equity	12.88	11.32	10.07	9.62	10.80

Source: Annual report of selected Pvt. Commercial banks.

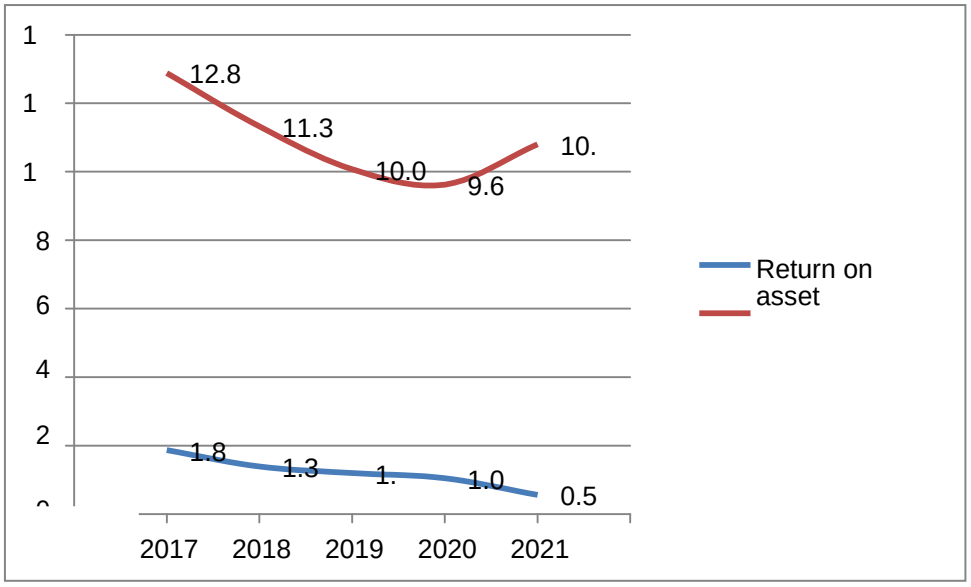


Fig: Scenario of yearly return on asset & return on equity ratio.

Explanation: Return on asset and return on equity is the most necessary part of financial organization. here is the 5 years return on asset and return on equity ratio of One bank limited. If we take under consideration only 2020 and 2021 financial years. We found that return on asset ratio in 2021 years decreased as0.56% from the previous years 2020 as 1.05%. And return on equity increased as10.80% in 2021 from the previous years 2020 as 9.625%.Increasing return on asset ratio years by years is express its sound financial position of the organization.

Table 5 state of classification and for 5 years asset quality data of AB bank limited.

Particular	2017	2018	2019	2020	2021
Deposit	198189	213819	245641	235954	235445
Loans and advance	177571	209725	218769	229647	241070
Investment	30779	32559	48187	45749	43594
Total asset	246331	285010	314836	314565	322526

Source: annual report of selected Pvt. Commercial banks.

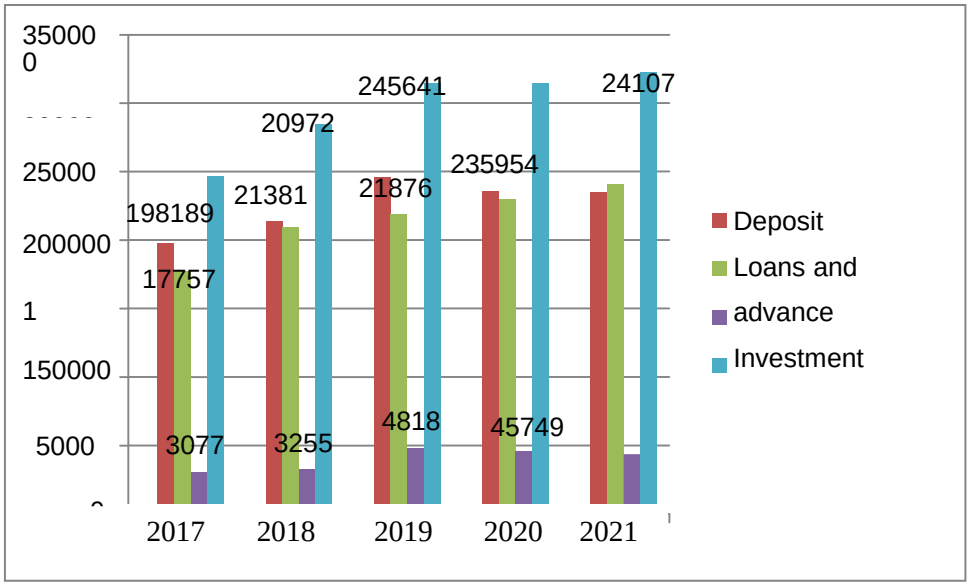


Fig: Scenario of yearly asset quality.

EXPLANATION: Table 3 express that there are some asset quality information of AB bank limited. There is now showing 5 years asset quality information such as deposit, loans and advances, investment, total assets. If we take under consideration only 2020 and 2021 years. We found that deposit, loans and advances and total assets increased in 2021 from the previous years 2020.but the investment amount decreased in 2021 from the previous years 2020.

Table 5 Return on asset and return on equity of 5 years in percentage (%) of AB Bank limited:

particular	2017	2018	2019	2020	2021
Return on asset	0.54	0.48	0.44	0.00	0.01
Return on equity	6.95	6.03	5.68	0.13	0.08

Source: annual report of selected pvt Commercial banks.

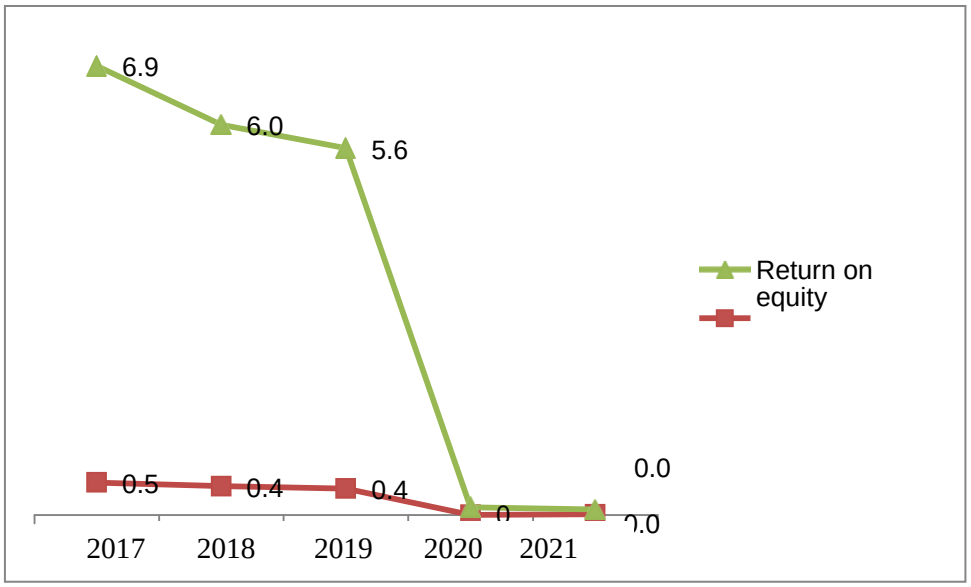


Fig: Scenario of yearly return on asset & return on equity ratio.

Explanation: Return on asset and return on equity is the most necessary part of financial organization. here is the 5 years return on asset and return on equity ratio of AB bank limited. If we take under consideration only 2020 and 2021 financial years. We found that return on asset ratio in 2021 years slightly increased as0.01% from the previous years 2020 as 0.00%.increasing return on asset ratio years by years is express its sound financial position of the organization.

Comparative Analysis:

There is now showing the comparative analysis of the selected Pvt. Commercial bank such as south east bank limited, One bank limited and AB bank. The comparative analysis occurred with the consideration of the asset quality terms such as deposit, loans and advances, investment and total assets .from this analysis we have easily found that which bank has strong financial position in the money market and efficiency management in the organization.

Table 6: Deposit of the selected Pvt. Commercial bank provision for 5 years .

particular	2017	2018	2019	2020	2021
Southeast Bank	189472.54	210431.03	229973.43	269828.08	298334.79
ONE Bank	100295	131252	153428	182675	202631
AB Bank	198189	213819	245641	235954	235445

Source: Annual report of selected pvt. Commercial banks

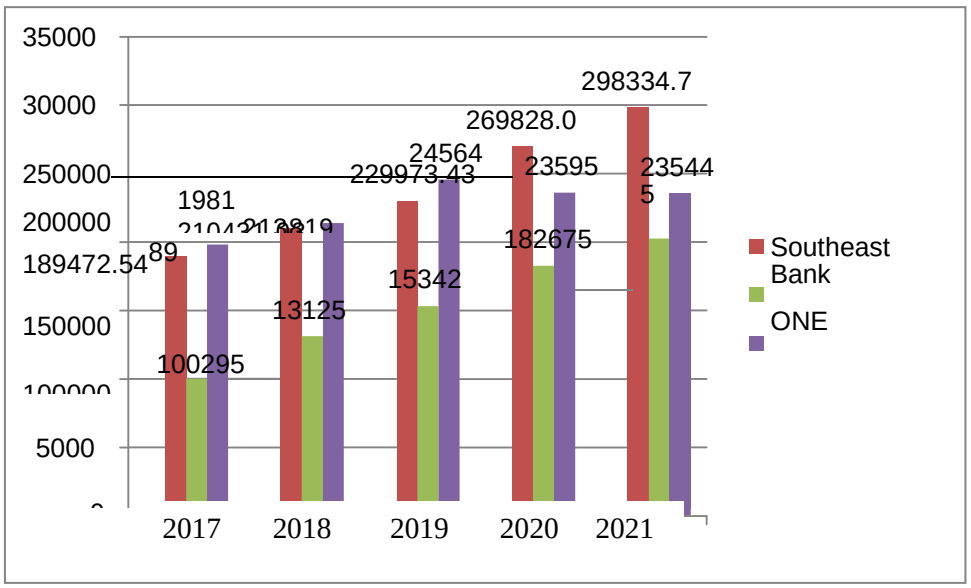


Fig: Scenario of yearly asset quality.

Explanation: Table 6 is expressing the 5 years deposit amount of selected Pvt. Commercial bank. under the consideration the years of 2020 and 2021. We have seen that south east bank limited has very strong deposit amount from the others bank. moreover AB bank has good deposit portion from the One bank.

Table 7:Loan& Advances of the selected Pvt. Commercial bank foR 5 years asset quality data.

particular	2017	2018	2019	2020	2021
Southeast Bank	147070.81	168878.46	191865.59	234316.72	267671.63
ONE Bank	90499	106749	132084	170393	198909
AB Bank	177571	209725	218769	229647	241070

Source: Annual report of selected pvt. Commercial banks

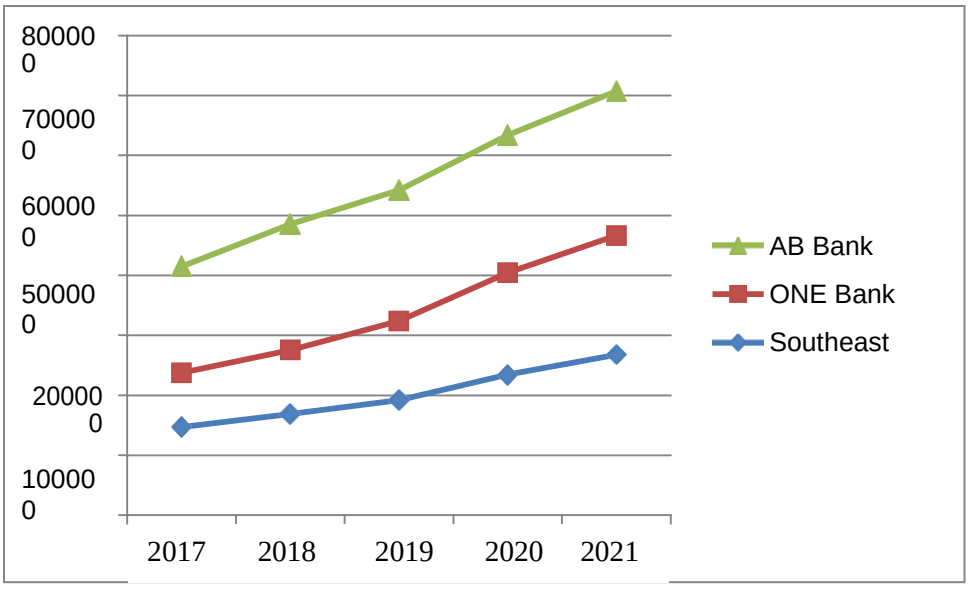


Fig: Scenario of yearly asset quality.

Explanation: Table 7 is expressing the 5 years loans and advances amount of selected Pvt. Commercial bank. under the consideration the years of 2020 and 2021. We have seen that south east bank limited has more loans and advances amount from the others two bank moreover AB bank has more loans and advances portion from the One bank.

Table 8:Investmentof selected Pvt. Commercial bank of 5 years.

particular	2017	2018	2019	2020	2021
Southeast Bank	56378.59	58829.27	61731.63	62911.04	65609.55
ONE Bank	14724	22900	28049	26144	28724
AB Bank	30779	32559	48187	45749	43594

source: Annual report of selected pvt. Commercial banks.

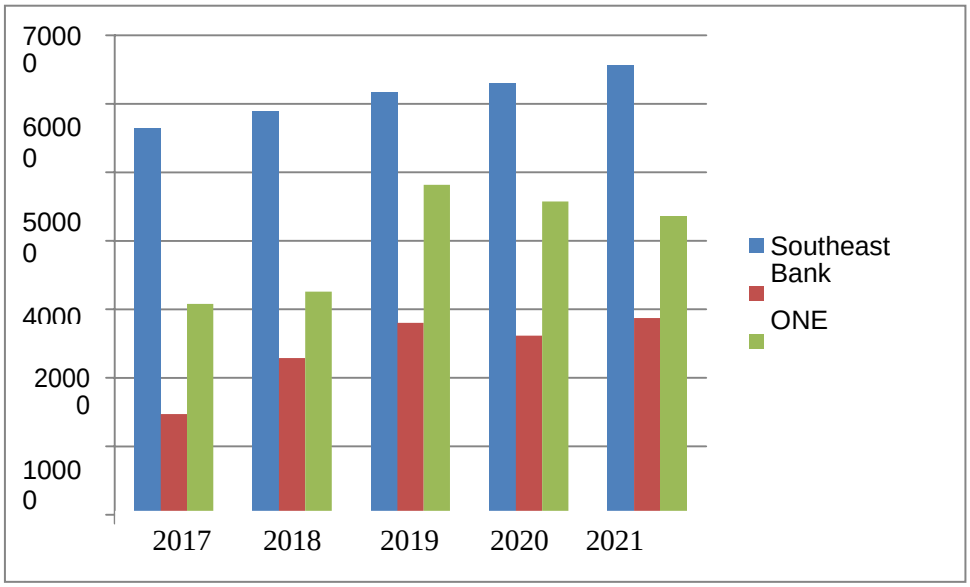


Fig: Scenario of yearly asset quality.

Explanation: Table 8 is expressing the 5 years investment amount of selected Pvt. Commercial bank in different sectors. under the consideration the years of 2020 and 2021. We have seen that south east bank limited has more investment amount in different sectors from the others two bank. Moreover AB bank has more investment amount from the One bank limited.

Table 9:Total asset of selected Pvt. Commercial bank of 5 years assets quality of selected private commercial banks.

particular	2017	2018	2019	2020	2021
Southeast Bank	236608.40	260718.03	291798.01	339288.05	381575.68
ONE Bank	121820	154193	188241	227202	266050
AB Bank	246331	285010	314836	314565	322526

Source: Annual report of selected pvt. Commercial banks.

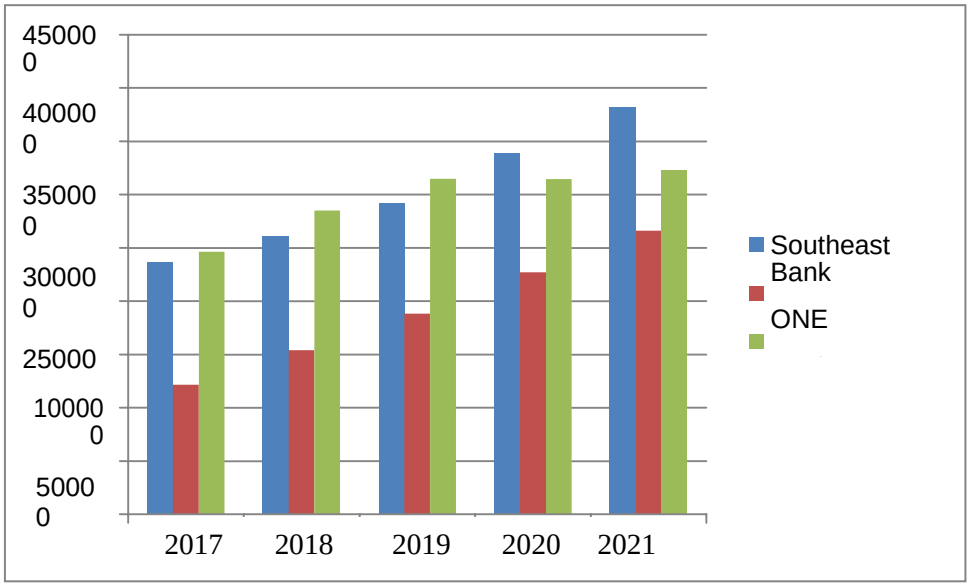


Fig: Scenario of yearly asset quality.

Explanation: Table 9 is expressing the 5 years total assets amount of selected Pvt. Commercial bank in different sectors. under the consideration the years of 2020 and 2021. We have seen that south east bank limited has more total asset amount in different sectors from the others two bank. Moreover AB bank has more total assets amount from the One bank Limited.

Comparative Analysis: There is now showing the comparative analysis of return on assets and return on equity of selected Pvt. Commercial bank .return omn asset measures the company's ability to turn asset into profit and return on equity measures a company's return on it's investment by shareholders.

Table 10:Return on Assets of 5 years selected CBs.

particular	2017	2018	2019	2020	2021
ONE Bank	1.87	1.39	1.20	1.05	0.56
AB Bank	0.54	0.48	0.44	0.00	0.01

Source: Annual report of selected pvt. Commercial banks.

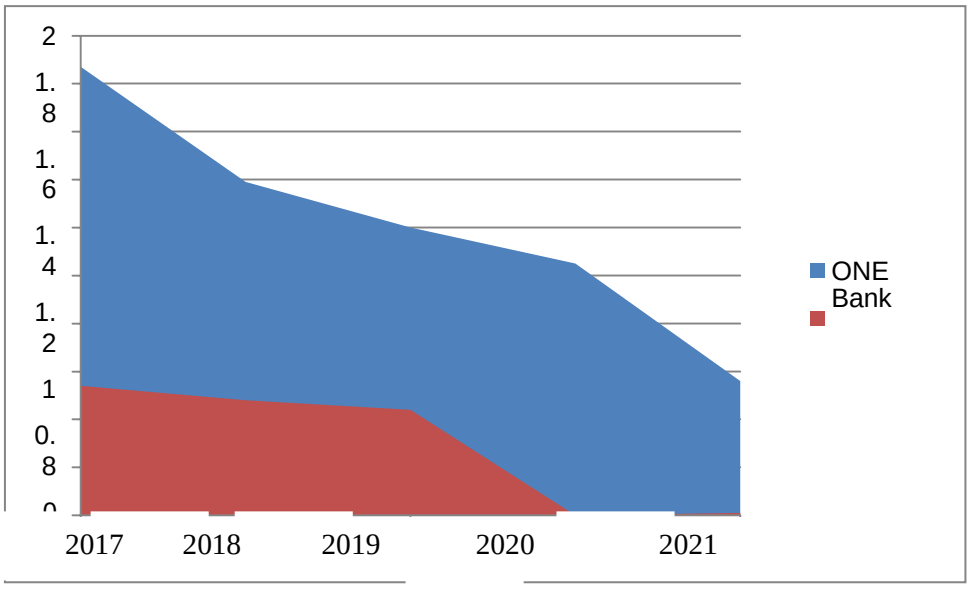


Fig: Scenario of yearly return on asset ratio.

Explanation: Table 10 is expressing the comparative analysis of return on asset of the selected Pvt. Commercial bank. there is three commercial bank return on asset ratio. Return on asset helps to measures the company's ability to turn asset into profit .under the consideration of years 2020 and 2021. We found that south east bank has more return on asset ability from the others bank .Moreover one bank's return on asset decreased in the years 2021 from the years 2020 which shown that the poor ability of the return on assets.

Table 11:Return on equity: of the selected Pvt. Commercial bank of 5 years.

particular	2017	2018	2019	2020	2021
Southeast Bank	16.51%	11.86%	9.06%	4.46%	9.17%
ONE Bank	12.88%	11.32%	10.07%	9.62%	10.80%
AB Bank	6.95%	6.03%	5.68%	0.13%	0.08%

Source: Annual report of selected pvt. Commercial banks.

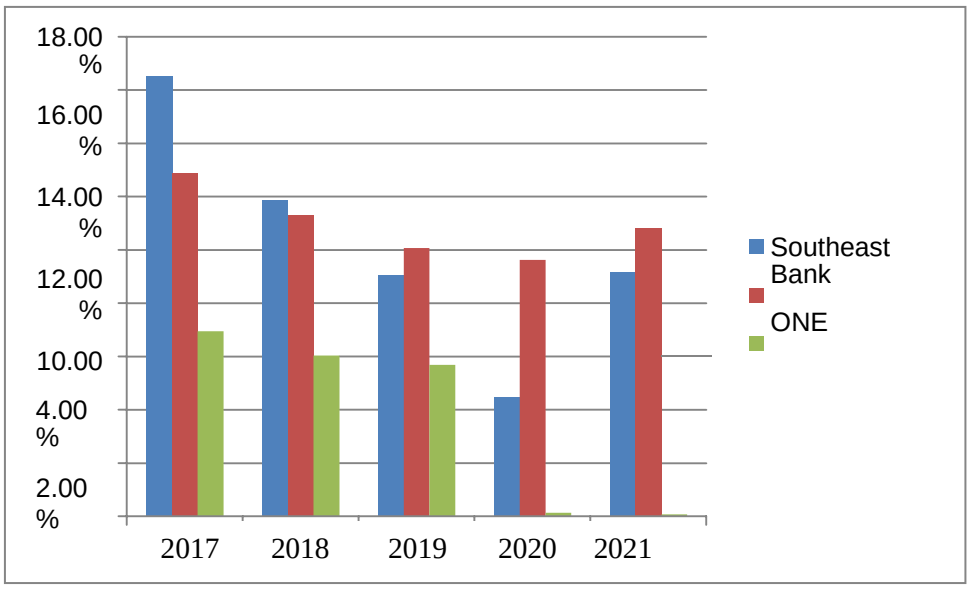


Fig: Scenario of yearly return on equity ratio.

Explanation: return on equity table is expressing the comparative analysis of return on asset of the selected Pvt. Commercial bank .there is three commercial bank return on equity ratio. Return on equity helps to measures the company's return on it's investment by the shareholders. .under the consideration of years 2020 and 2021. We found that One bank has more return on equity from the others bank .Moreover south east bank's return on equity is more than the AB bank and increased in the years 2021 from the years 2020 which shown that the good scenario of the return on equity.

Chapter 5

Findings, Recommendations & Conclusion

Findings:

Bank in Bangladesh are playing a vital role towards sustainable development by introducing various efficient techniques to measure the asset quality Through many studies have been made in the field of measurement of asset quality but there have been very studies done in Bangladesh especially in banks. The researcher realizes that no study has been carried out on environmental aspects of various way to maintain the asset quality practices introduced by the banks in Bangladesh private or public sectors.it the high time to find out to more effective and efficient method to developed the asset quality measurement and try to make efficient management and creating aware about the measurement of asset quality and it's benefit to it's customers as well the environment. Such study surely help the banking sectors, customers, policy makers and also society as a whole. There are some barriers can be easily found by the analysis of asset quality measurement. These are presented bellows.

- There is some lacking of research opportunities in internal management control what's some defaults created in the efficient management.
- Lack of quality assurances that's why some loans and advances will interrupted in the processing which create the inefficiency both internal or external sectors.
- If the Pvt. Commercial banks have some lacking of managing assets and skills of asset quality measurement that will major barrier in the financial market which has decreased the clients faithfulness.
- Pvt. Commercial bank have insufficient measuring of tangibles for management purposes .that is also decreased goodwill of the commercial banks.
- Some defaults created by the employee which have indicated the weak improve performances of employees.
- There is another's important findings is Lacking of of develop the total quality management of the Pvt. Commercial banks.
- Insufficient measuring the value of information such as asset valuation approach.
- Insufficient of training which is the related with employees to create the best efforts of their tasks.

Recommendations:

It is of crucial importance for banks to practice prudent credit risk management to safeguard their assets and protect the investors' interests. The Central Bank of Bangladesh (BB) should regularly assess the lending attitudes of financial institutions. One direct way is to assess the degree of credit crunch by isolating the impact of supply side of loan from the demand side taking into account the opinion of the firms about banks' lending attitude. Finally, strengthening the securities market will have a positive impact on the overall development of the banking sector by increasing competitiveness in the financial sector. When the range of portfolio selection is wide people can compare the return and security of their investment among the banks and the securities market operators.

Management need to be cautious in setting up a credit policy that will not negatively affects profitability and also they need to know how credit policy affects the operation of their banks to ensure judicious utilization of deposits and maximization of profit. Improper credit risk management reduce the bank profitability, affects the quality of its assets and increase loan losses and non-performing loan which may eventually lead to financial distress. As a result, banks still need to make efforts to improve their financial soundness is presented below:

- The use of collaterals as security of granting loans should be further reviewed to reduce further incidence of bad debts;.
- All credit risk managers and lending officers should adhere strictly to good lending practice; they should know the purpose of the loan and ensure the feasibility of every loan proposed.
- Bankruptcy law should be enforced to the letter and a sound credit culture should be introduced.
- A good communication should be maintained with the customers or clients.
- Customer satisfaction should be practices in proper way.
- Both internal and external management should be improved.
- Credit management should be viewed as part of a co-ordination group efforts made by all departments involved with customers to minimize bad debts and maximize profit instead of leaving it in the hands of the credit risk management department.

Conclusion:

The study examined the influence of bank asset quality and its performance in Bangladesh commercial banks. it is concluded that there is a relationship between bank asset quality and its performance while there is no relationship between bank loans and its profitability. Hence, It is therefore, concluded that linear relationship exist between the dependent and the independent variables. This study shows that there is a significant relationship between bank performance and asset quality (in terms of loan performance). Loans and advances, loan loss provisions and non-performing loans are major variables in determining asset quality of a bank. These risk items are important in determining the profitability of Bangladesh Banks. Where a bank does not effectively manage its risk, its profit will be unstable. This implies that the profit before tax has been responsive to the credit policy of Bangladesh banks. The asset structure also affects profit performance. Banks become more concerned because loans are usually among the riskiest of all assets and therefore may threatened their liquidity position and lead to distress. Better credit risk management results in better bank performance.

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