

An Internship Report
On
The Impact of Credit Risk Management on Banks Profitability: A
Study on Rupali Bank PLC, Dinajpur

This report is submitted to the Department of Accounting, Faculty of Business Studies, Hajee Mohammad Danesh Science and Technology University, Dinajpur for the partial fulfillment of the degree of Master of Business Administration (MBA-AIS) in Accounting and Information Systems



Prepared By
Md. Riad Mia
Student ID- 1703145
MBA in Accounting and Information Systems
Semester III-2022, 10th Batch
Department of Accounting
Faculty of Business Studies
HSTU, Dinajpur.

Supervisor
Saiful Islam ACMA
Associate Professor
Department of Accounting
Faculty of Business Studies
HSTU, Dinajpur.

Hajee Mohammad Danesh Science and Technology University
Dinajpur-5200, Bangladesh.

June, 2024

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Approved By

Supervisor
Saiful Islam ACMA
Associate Professor
Department of Accounting
Faculty of Business Studies
HSTU, Dinajpur.

Co-Supervisor
Md. Fazlay Rabbi
Lecturer
Department of Accounting
Faculty of Business Studies
HSTU, Dinajpur.



Hajee Mohammad Danesh Science and Technology University
Dinajpur-5200, Bangladesh.

June, 2024

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At the beginning, I would like to pay my humble gratitude to the almighty Allah for giving me the ability to work hard under pressure. I would like to express heartfelt gratitude to his honorable Supervisor, Saiful Islam ACMA, Associate Professor, Department of Accounting, Faculty of Business Studies, Hajee Mohammad Danesh Science and Technology University, Dinajpur for his supervision, scholastic guidance, innovative suggestions, constructive criticism, helpful comment, inspiration and timely instructions throughout the entire period of research. I would also like to express deep indebtedness to my Co-supervisor, Md. Fazlay Rabbi, Lecturer, Department of Accounting, Hajee Mohammad Danesh Science and Technology University, Dinajpur for his scholastic guidance, untiring assistance, and advice in preparing the report. My deepest appreciation and special thanks to the honorable sir Dr. Md. Earfan Ali Khondoker, professor, Department of Statistics, HSTU, who gave me proper attention and cooperation to complete this report. I would especially like to thank the honorable mam Humaira Begum, Assistant Professor, Department of Finance and Banking, HSTU, who gave me proper guidelines about the entire report and taught me whole things about report writing. Md Atekur Rahman, Md Faysal Ahmad, and so on of my batchmates helped me a lot during my report writing days with valuable advice, guidance, and necessary information.

I submit my earnest thanks to my affectionate parents, who always remain my back to support me, I can never give the returns of their untried struggle for me, but I can only prove myself as they expect from me

.....

Md. Riad Mia

Student ID – 1703145

MBA in Accounting and Information Systems

Semester III-2022, 10th Batch

Department of Accounting

Faculty of Business Studies

HSTU, Dinajpur



রূপালী ব্যাংক লিমিটেড
RUPALI BANK LIMITED



Assures Better Service

Maldapatty Branch, Dinajpur

e-mail: br-4523@rupalibank.org; Phone: +880 96 14016495

Date: ২৭-০৫-২৪

TO WHOM IT MAY CONCERN

This is to certify that, **Md. Riad Mia**, having student ID No. 1703145, MBA in Accounting and Information Systems, a Student of Hajee Mohammad Danesh Science & Technology University (HSTU), Dinajpur, has successfully completed his internship from 01/01/2024 to 18/05/2024 total 90 (Ninety) working days internship program at Rupali Bank Limited, Maldapatty Branch, Dinajpur. During his internship period found his good moral attitude and sound behavior.

We wish him every success in life.

Abul Khayer Md. Shhiduzzaman
Senior Principal Officer
& Manager
Rupali Bank Limited
Maldapatty Branch
Dinajpur-5200

AKM Shhiduzzaman
Manager (S.P.O)
Rupali Bank PLC.
Maldapatty Br. Dinajpur
Mob: 01810684450

Certificate of Supervisor

I hereby certify that the concerned report “The Impact of Credit Risk Management on Banks Profitability: A Study on Rupali Bank PLC” is work by Md. Riad Mia, Student ID: 1703145, MBA in Accounting and Information Systems (MBA – AIS), Faculty of Business Studies, Hajee Mohammad Danesh Science and Technology University, Dinajpur-5200, He has completed his report program under my supervision and submitted for the fulfillment of the requirement of the degree of Master of Business Administration (MBA) under the Department of Accounting, Hajee Mohammad Danesh Science and Technology University, Dinajpur-5200

I wish him every success in life

.....

Saiful Islam ACMA

Associate Professor

Department of Accounting

Faculty of Business Studies

HSTU, Dinajpur

Certificate of Co-supervisor

I hereby certify that the concerned report “The Impact of Credit Risk Management on Banks Profitability: A Study on Rupali Bank PLC” is work by Md. Riad Mia, Student ID: 1703145, MBA in Accounting and Information Systems (MBA-AIS), Faculty of Business Studies, Hajee Mohammad Danesh Science and Technology University, Dinajpur – 5200, He has completed his report program under my supervision and submitted for the fulfillment of the requirement of the degree of Master of Business Administration (MBA) under the Department of Accounting, Hajee Mohammad Danesh Science and Technology University, Dinajpur-5200.

I wish him every success in life

.....

Md. Fazlay Rabbi

Lecturer

Department of Accounting

Faculty of Business Studies

HSTU, Dinajpur

Student's declaration

I hereby certify that the report work namely “The Impact of Credit Risk Management on Banks Profitability: A Study on Rupali Bank PLC embodies the result of my works and efforts, prepared under the supervision of Saiful Islam ACMA, Associate Professor, Department of Accounting, Faculty of Business Studies, Hajee Mohammad Danesh Science and Technology University, Dinajpur.

I further confirm that the work and material in this report are original and have not been submitted to any other university or institution for credit or any other reason.

.....

Md. Riad Mia

Student ID – 1703145

MBA in Accounting and Information Systems

Semester III-2022, 10th Batch

Department of Accounting

Faculty of Business Studies

HSTU, Dinajpur

Abstract

This study examines “The Impact of Credit Risk Management on Banks Profitability: A Study on Rupali Bank PLC” focusing on its Dinajpur branch. Utilizing data from 2012 to 2022, the report analyzes the relationship between key credit risk indicators, such as non-performing loan (NPL) ratios and loan loss provisions, and profitability metrics like Return on Assets (ROA) and Return on Equity (ROE). The findings reveal that effective credit risk management, characterized by lower NPL ratios and adequate loan loss provisions, significantly enhances profitability. The study underscores the necessity of robust risk assessment procedures and proactive credit policies, recommending that Rupali Bank PLC enhance its credit appraisal processes and adopt advanced risk management tools to sustain financial performance.

Keywords: Bank Profitability, Non-Performing Loans, Financial Performance, Risk Mitigation

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Chapter 1

Introduction

1.1 Introduction

Risk involves exposure to some type of danger and the possibility of loss or injury. In general, risks can apply to your physical health or job security. In finance and investing, risk often refers to the chance an outcome or investment's actual gains will differ from an expected outcome or return. Risk includes the possibility of losing some or all of an original investment. Quantifiably, risk is usually assessed by considering historical behaviors and outcomes. Risk can take several forms (Credit risk, Market risk, Operational risk, etc.). Among these is credit risk. While banks and other financial institutions confront a variety of hazards, credit risk accounts for at least half of them worldwide. Therefore, improved management is required to lessen the losses. Credit risk is the possibility of losing money because of a borrower's incapacity to repay a loan of any sort. Credit risk management is the process of minimizing losses by assessing whether a bank has enough capital and loan loss reserves at any given time. Financial institutions have historically found it challenging to implement this approach. In order to comply with more stringent regulations and cover the higher capital expenses linked to credit risk, several banks are restructuring their approaches to credit risk. Improving credit risk management may also provide you a competitive advantage and dramatically improve performance in general. The top bank in Bangladesh, Rupali Bank, does this function through a separate division that is in charge of "Credit Risk Management." My internship was with the credit department.

1.2 Background of the Study

This report study serves as a comprehensive resource for researching how CRM procedures contribute to the long-term sustainability and profitability of Bangladeshi banks, in addition to providing recognition for the effectiveness of those institutions' credit risk management. My academic supervisor, Saiful Islam ACMA, closely supervises my report, providing regular progress reports and recommendations for corrective action when necessary. I work under his guidance while conducting my studies on certain subjects. I need to gather secondary data on Rupali Bank PLC's financial situation from 2012 to 2022 in order to complete my report.

1.3 Study justification

I joined Rupali Bank as an intern to finish my degree program in accounting from Hajee Mohammad Danesh Science and Technology University. For my internship, I wrote a report titled "The Impact of Credit Risk Management on Banks Profitability: A Study on Rupali Bank" My department's supervisor has advised us to focus on credit risk management.

1.4 Objective of the study

The main objective of this study is:

- To get familiar with how much a bank especially my selected bank Rupali Bank is efficient in consistently practicing credit risk management.
- To understand the benefits and significance of CRM from the viewpoint of financial organizations.
- This report's required goal is to investigate how well "Rupali Bank PLC, a division of the Bank of Bangladesh, manages credit risk across its operations.

Other objectives are:

- To examine a bank's credit risk policy, namely Rupali Bank, which I have chosen.
To closely examine the effects of CRM practices on the sustainability and profitability of banks.

1.5 Methodology of the Study

- Report Type:

This is a descriptive report that is pertinent to the research since it requires an analysis of the bank's effective credit risk management in addition to the conclusions about how CRM affects the bank's sustainability and profitability.

Types of Data:

- Primary Sources: My three-month internship at the Rupali Bank, branch in Maldhapatti served as my practical experience, which is the main source of information.

- ✓ Interview: Having face-to-face conversations with the relevant branch officials and personnel enabled me to gather information.
- ✓ Practical job experience: Having worked at several desks within the branch, I was able to gather information that contributed to make the report useful.
- Secondary Sources: The information obtained from secondary sources includes official websites, annual reports, credit risk management operation manuals, Rupali Bank annual reports, Bangladesh Bank websites, and many other websites, books, published articles, national dailies, etc.
- Data analysis tools: As mentioned below, I perform relevant data analysis after gathering pertinent data, which includes statistical and financial analysis.
- Analytical statistical tools: The following list contains the statistical instruments that were used to determine the associations between the numerous variables that were the subject of the study:
 - ✓ . Trend Analysis
 - ✓ Ratio Analysis
- Financial Analysis: In order to determine the effectiveness of Rupali Banks' CRM practices, particularly those of "Rupali Bank, I use other significant financial analyses when conducting this financial analysis.

1.6 Limitations of the study

The following issues that I ran into while writing this report might be considered the study's limitations:

- ✓ Banks tend to be reluctant to reveal confidential information about them.
- ✓ As an intern, I lack a thorough understanding of the terminology utilized in the banking industry.
- ✓ Since I used data from 2012 to 2022, I am unable to comment on the general effectiveness of CRM.
- ✓ Time constraint
- ✓ Restricted data access.
- ✓ Several sections of the report are not in-depth due to time constraints and organizational confidentiality protection.
- ✓ Financial statements often do not provide an explanation for the figures and statistics; they merely show the data and how they are broken down.

Chapter 2

Literature review

Given the increasing number of risks that banks must manage and the growing significance of risk management policy, the definition of credit risk management has expanded. However, one of the main responsibilities is to minimize losses brought on by loans given to individuals and companies that are not repaid. To obtain a targeted return on its capital, a bank must assess, manage, and monitor its exposures. This process is known as credit risk management. The decisions made by credit risk managers affect the loans' performance and composition.

Eisenbeis and Kwan (1995) cited Jensen, who emphasised that managers' role as the company's custodians is rife with conflicts of interest, whereby managers take the risk of making management decisions in order to safeguard their interests at the expense of optimising shareholder wealth. Some of the reasons are listed by Santomero (1997) and include capital market defects, management self-interest, the cost of financial hardship, and a non-linear tax system.

Graham and Rogers (1999), risk management benefits the organisation economically by lowering the expected tax liability, particularly if the firm has a convex tax function—a situation in which tax liabilities rise with volatility in earnings. The notion of agency theory is introduced as a result of the management self-interest creating a specific interest.

AlTamimi and AlMazrooei (2007) revealed that UAE banks have advanced to a point where they are proficient in controlling their credit risks. The cost of bankruptcy is emphasized by Tekavcic et al. (2008), who claim that businesses must pay high legal, administrative, and monitoring expenses, which eventually lower the firm value.

Muninarayanappa and Nirmala (1995) provided an overview of the theory behind credit risk management in banks. They outlined the goals and variables that influence the course of the bank's credit risk management policy. The difficulties in managing credit risk are also highlighted, stemming from both internal and external variables. They concluded that the efficacy of credit risk management depends on the preservation of an

appropriate credit risk environment, credit strategy, and credit rules. Thus, maintaining and raising the loans' quality ought to be the main priorities.

Dardac and Moinescu (2008), the hardest part of developing a rating system is validating it since there are two main components involved: evaluating the rating model and determining the risk factors on the one hand and validating the process score on the other.

Banerjee, & Farooqui Q.G.M. (2009), Ensuring the finest loan and advance points and their efficient administration is the aim of credit management. Minimising non-performing assets is another goal. The lending rules should address lending restrictions, loan facility kinds, borrower and group limits, and industry and business sector focus. It should put in place a credit-grading system. Every facility needs to be assigned a risk grade.

Chapter 3

Organizational Framework

3.1 Rupali Bank Structure

Bangladesh Small Industries and Commerce Bank, often referred to as RB, was established as a financial institution on December 14, 1986, in accordance with the previous Companies Act 1913.

It began operations on March 26, 1972. As of right now, the Bank is controlled by the amended Bank Company Act of 1991. The Bank was established as a result of policymakers' practical assessment of the need for a bank in the nation to finance small-scale industries.

3.2 Product and services of Rupali Bank PLC

➤ Deposit Plan

People's needs are always of utmost importance to RB. They constantly consider developing and presenting new items in order to satisfy people's or clients' demand for savings. In light of this, RB has launched the following deposit products to meet the average person's desire for savings on a rainy day:

- Fortune Plus
- Savings Account
- Current Account
- Rupali Bank PLC School Banking Scheme
- Monthly Benefit Plan
- Current Account
- Premium Plus Current Account

➤ Loans and advances arena of Rupali Bank

Inspiring trade and commerce has been the goal of Rupali Bank PLC. Consequently, the bank offers modest loans for personal use, microcredit, business loans, industrial loans, and commercial loans.

agricultural purposes, finance for the agro-based sector, loans for women entrepreneurs, etc. Currently, loans for small business, commercial, and industrial finance are the bank's primary focus. A bank always makes money when it makes advances and loans. Thus far, the Rupali Bank has utilized the deposits effectively. Loans were disbursed by the Bank in several ways. The two main categories of loans and advances have been identified as follows:

Term Loan	Duration
Briefly	For a maximum of 12 months.
Medium Term	greater than 12 months, up to and including 60 months.
Extended Duration	Greater than sixty months.

These are the bank-issued loans that have set payback terms. Based on their duration, which is defined as follows, fixed-term loans are divided into three categories:

- Microcredit Scheme
- Industrial Credit Scheme
- Corporate credit

3.3: Risk Management

The identification, measurement, monitoring, and control of risk across the bank are all aspects of risk management that banks continuously need efficient and effective processes and mechanisms for. Because of the inclusive culture that Rupali Bank PLC has created, risk management is seen as a shared responsibility by all parties. Rupali Bank PLC Bank appoints a committee to carry out assigned tasks;

- Developing a comprehensive risk management strategy and establishing a suitable
- organisational framework to manage risks.
- To examine the standards and policies for risk management.
- To offer guidance on risk management-related matters, including the creation and upkeep of a supportive culture.
- To present the Committee's views and suggestions to the Board.

They also develop a number of policies for risk management which include;

- ✓ Credit policy
- ✓ Treasury Risk Management policy
- ✓ AML & CFT policy
- ✓ Liquidity contingency plan.

3.4: CRAB Rating

Credit rating is essential for all types of financial companies. Rupali Bank PLC Bank has also received this type of rating from national credit rating organizations, which helps with its transformation into a publicly trustworthy organization. Rupali Bank PLC has been given an ST-5 rating for 2022 and a long-term, stable outlook B+ grade (pronounced as Single B Plus). In addition, because Rupali Bank PLC is a government support organization, it has an A+ (pronounced Single A Plus) long-term rating and an ST-2 short-term rating. This grade level denotes a high standard of on-time payment of debts, sufficient security, and minimal credit risk.

Chapter 4

Conceptual Framework and Process of CRM

4.1 Credit Risk Management

Simply expressed, credit risk is the amount of risk a bank assumes when it gives borrowers credit. If the bank defaults and stops providing the required payments on schedule, they may sustain losses. Reducing exposure to credit risk to acceptable and reasonable levels is the aim of bank credit risk management.

Determining whether a bank has enough capital and loan loss reserves on hand at any one time is the process of minimising losses. For this, banks need to handle not just the portfolio as a whole but also each credit on an individual basis.

There are a few basic steps that every Credit Risk Management includes-

- ✓ determine the overall credit risk of a bank by looking at the individual, customer, and portfolio levels; understand the bank's capital reserve in great detail; and Establish a setting that is appropriate for credit risk by implementing an integrated, quantitative credit risk solution.
- ✓ The implemented business model needs to be dynamic, capable of achieving real-time scoring to minimize monitoring, and equipped with business intelligence tools and data visualization features to make information accessible at all times.

4.2: Advantages of Credit Risk Management

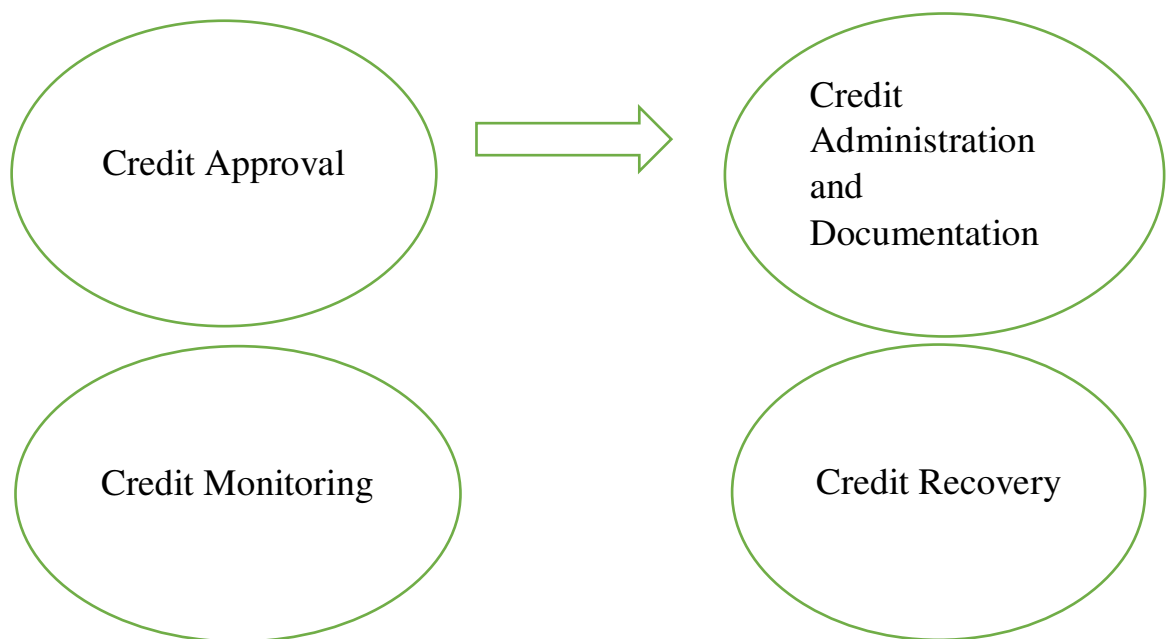
- Planning tools: They assist in devising solutions in advance to deal with an unfavorable event.
- Prediction of Risk component: They aid in forecasting and assessing the risk component of any transaction.
- Establish a credit model: It facilitates the creation of credit models, which are useful instruments for assessing loan risk.
- Saving money and time: It puts at risk the tasks that are finished before projects and other company plans. It consistently saves the expenses that are combined into the products that are used. It saves time and eliminates waste when combating fires.

4.3: Challenges to Successful Credit Risk Management

- Rely on external entities: Managing risks often rely on external data as well as on external entities that are modulated inside the organization.
- Intricate structure: Since prediction is not totally scientific, opinions might differ.
- Uncertain scoring system: There are concerns about the expense and management of a credit scoring system.
- Conundrum: While several models might function, there are no assurances. Some banks favor "one model" as a result.

4.4 Outline of CRM

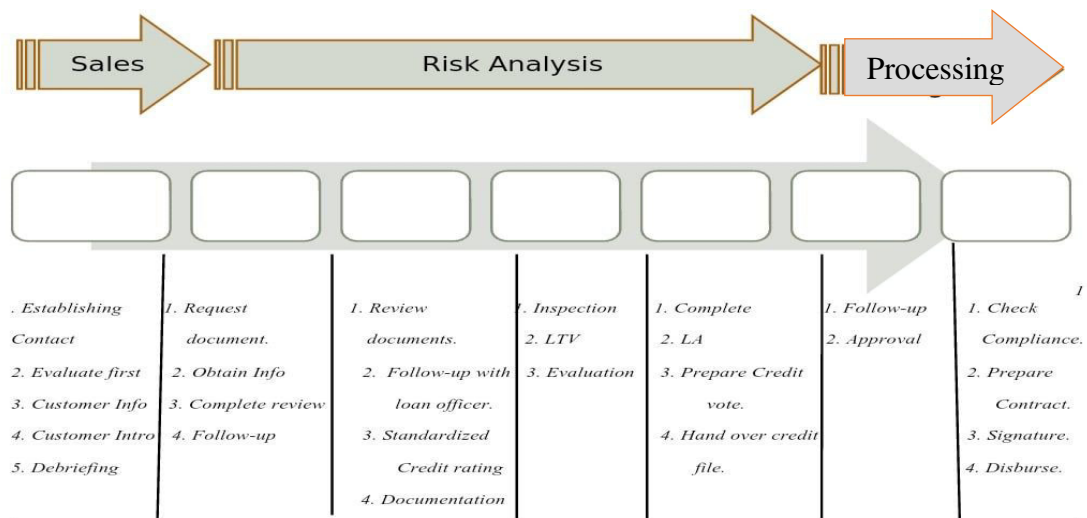
According to the guidelines of Rupali Bank (2005), following procedures must abide by all the banks for credit management;



4.5 Credit approval process:

Credit applications should be decorated in a way that can explain the borrower's present condition in the easiest way. By assessing it the assigned person should decide whether to provide a loan or reject it initially.

4.5.1 Credit approval process



4.6 Credit Administration

Prior to the release of financial facilities, the Credit Administration function plays a crucial role in guaranteeing that the necessary paperwork and permissions are completed. Because of this, it is imperative that the roles of Credit Administration and Relationship Management/Marketing be kept completely apart to prevent any chance of controls being breached or concerns not getting enough attention. Typical duties carried out by a credit administration unit include the following.

4.6.1 Documentation

Documentation is an essential part of the credit process and is required for each phase of the credit cycle, including;

4.6.1.1 Credit documentation process

- Application for credit
- Credit evaluation
- Acceptance of credit
- credit surveillance
- Value of collateral
- Deficit Appreciation
- Understanding of security

4.6.2 Disbursement

Payments under facilities must to be paid just once all security paperwork has been completed. A CIB report need to list all lenders along with their facility, limit, and outstanding balance. It is necessary to follow all requirements pertaining to major facilities, facilities for directors, and associated parts of the Financial Institutions Act as well as Rupali Bank circulars. Before funding, all conditions of the credit approval must be satisfied.

4.6.3 Credit Monitoring

The facility has to be constantly inspected when it is approved and drawdown permitted. These include tracking whether borrowers are adhering to the conditions of the credit, spotting irregularities early, valuing collateral on a regular basis, and keeping an eye on punctual repayments.

4.6.4 Facility Repayment

When the main or markup installment is due, the obligors should be informed in advance. Any deviations, including non-payment or payment beyond the due date, must to be noted and reported to management. Following reception, accurate documentation and revisions must also be made.

4.7 Credit Monitoring

Credit losses can be minimised by implementing monitoring procedures and systems that provide an early warning of a borrower's deteriorating financial condition. The following exceptions should, at the very least, be flagged by systems to alert the relevant executives in the CRM and RM teams: past-due trade invoices, past-due principal or interest payments, account excesses, and any violations of facility covenants. Regular non-receipt of financial statements and any violations or exceptions made to covenants; late action taken in response to findings of internal, external, or regulatory inspections or audits.

4.7.1 Early Alert Process

There are serious risks or possible vulnerabilities associated with an Early Alert Account that call for management oversight, supervision, or constant monitoring. If these flaws are not fixed, the asset's repayment prospects or the Financial Institutions credit standing

may worsen at a later time, and there's a good chance that the Financial Institution will be downgraded to an ICRR 4 during the following year. The primary credit obligations of all Relationship Managers are early detection, timely reporting, and proactive management of Early Alert Accounts. These tasks must be completed consistently. If there are market rumours that call for further vigilance, a report for an Early Alert should be raised. Additionally, maintaining continuous communication with clients will increase the possibility of creating plans that the customer and the can both agree with. Facilities may yet have problems even with a careful credit approval procedure. In order to guarantee quick action to safeguard the Financial Institutions interest, it is crucial that declining credit signals be identified early and promptly reported. An Early Alert report should be raised if there are additional issues that justify further care, such as a breach of facility covenants or unfavorable market rumors.

4.8 Credit Recovery

Direct management of accounts with persistent decline (a Risk Rating of Sub Standard (6) or above) should be handled by the CRM Recovery Unit. According to CRM and Corporate's proposal, it may be appropriate to move leave accounts with grades of 4-5 to the for a smooth leave.

The Recovery Unit's primary functions are:

- ✓ Establish the account action plan or recovery strategy.
- ✓ Look into every avenue to maximize recovery, such as putting clients in receivership or liquidation where necessary.
- ✓ Ascertain that sufficient and prompt loan loss provisions are established on the basis of actual and anticipated losses.
- ✓ Periodic evaluation of underperforming or non-performing accounts

4.8.1 Credit Recovery Functions (Rupali Bank PLC Guidelines)

- NPL Account
- Management
- Account transfer
- Procedures NPL Provisioning and write-off

Chapter 5

Credit Risk Management Practices of Rupali Bank (PLC)

5.1 Credit Risk Management Policy

- ✓ Every financial institution should have a policy in place for controlling credit risk. Credit risk management should include documents with risk identification, risk assessment, risk grading, and legal issues.
- ✓ Establishing a framework for credit risk management entails senior management of financial institutions developing and approving credit policies and credit administration processes. Then, these rules should be viewed as a lending scale for various loan types, such as corporate, commercial, and SME loans. The credit risk policies listed below are: Give a thorough and structured credit review and appraisal procedure.
- ✓ Provide risk measurement, identification, oversight, and control.
- ✓ Establish target markets, risk acceptance standards, credit approval power, credit origination/maintenance protocols, and portfolio management policies.
- ✓ Every officer involved in credit risk management have a comprehensive understanding of the institutions' methodologies and credit sanction process. Additionally, they must communicate with the branch managing officials.

5.2 Credit Risk Management Department

- ✓ The bank has divided the responsibilities of the officers and executives participating in credit-related operations in light of the essential components of credit risk. There are now distinct sections for Corporate, SME, Retail, and Credit Cards.
- ✓ Their responsibilities include selling credit products, investigating new business prospects, and keeping good client connections.
- ✓ In compliance with the regulations of Bangladesh Bank, the authorities of Rupali Bank PLC have established four teams to guarantee operational transparency throughout the credit year.
- ✓ They are the Credit Approval Team.
- ✓ Asset Operations Department.

5.3 Charge Documents

The following charge documents are required to secure loans and advances. The following documents must be stamped and duly signed by the party to secure the bank's loans and advances:

Distribution Request *H* Verification of Balance *H* Delivery Note (D.P.) *H* Promissory Note (I) Promissory Note (We).

Trust Receipt Hypothecation of Machinery Hypothecation of Goods Revival Letter Form-I

Letter of Guarantee, Letter of Counter Guarantee, Memorandum of Deposit of Title Deed, General Hypothecation of Negotiable Instrument, and Letter of Hypothecation (Bill) are examples of Revival Letter Forms.

5.4 Credit approval process at Rupali Bank (PLC).

Loans can be provided to borrowers in two forms;

- With collateral
- Without collateral

An asset accepted by a lender as security for granting a loan is referred to as collateral. The lender may take possession of the collateral and sell it to cover all or part of his losses if the borrower fails on the loan. Depending on the purpose of the loan, collateral may take the shape of assets other than real estate.

You can obtain a loan without collateral if you are not required to pledge any assets as security for the loan. You have been granted an unsecured loan, meaning that in the event of failure, the lender has no assets to fall back on. Because of this, unless you have a spotless credit history, the interest rate on these loans is quite expensive.

5.4.1 Credit approval process

Open any depository account	Survey report	Credit Line Proposal
Client request letter	Branch valuation certification	Bangladesh Bank's approval
Purchase and Sales Report	CRG Shet	Loan disbursement

Collateral is an item that a lender accepts as security for making a loan. In the event that the borrower defaults on the loan, the lender may seize the collateral and sell it to make up all or part of his losses. Other than real estate, collateral might take the form of assets depending on the loan's intended use.

5.4.1.2 Client request letter

The lender then asked the customer to submit an application. The lender provides all the requirements that will be useful to know about the customer in that application/request letter.

5.4.1.3 Purchase and Sales Report

After requesting the head office, the head office will ask for the company's purchase and sales report for at least 3 months.

5.4.1.4 Survey report

They will engage an independent survey organization (approved by Bangladesh Bank) if the purchase and sales report meets the requirements of the bank's permission. The capital structure of the business, securities (primary and secondary), business kinds, mortgage property, assets and liabilities, forced asset value, client and business characteristics, etc. will all be surveyed by this survey firm.

Internal Credit Risk Rating Scores

The ICRR consists of a 4-notched rating system covering the Quantitative and Qualitative parameters. The ratings and scores are mentioned below:

Rating	Scores Aggregate
Excellent	$\geq 80\%$
Good	$\geq 70\%$ to $< 80\%$
Marginal	$\geq 60\%$ to $< 70\%$
Unacceptable	$< 60\%$

❖ Definitions of Credit Risk Rating

The features of the different categories of Credit Risk Ratings are given below:

a) Excellent

- ✓ A minimum of 80 points on the ICRR aggregate score indicates that the borrower has a good ability to repay debt, as demonstrated by their high liquidity, low leverage, robust profits, and sufficient cash flow.
- ✓ The borrower possesses a substantial and established market share.
- ✓ Excellent managerial abilities and knowledge.

b) Good

- ✓ A combined score of at least 70 but not more than 80.
- ✓ While these borrowers don't have the same strength as "Excellent" borrowers, they nonetheless have a solid track record, regular profits, and sufficient cash flow.
- ✓ The borrower has a significant market share and is well-established. They also possess excellent management abilities and competence.

c) Marginal

- ✓ A minimum quantitative score of 30 and an aggregate score of 60 or above but less than 70 indicate possible vulnerabilities in this grade that should be closely monitored by management.
- ✓ If these flaws are not fixed, the borrower's chances of making their payments might get worse.

d) Unacceptable

- ✓ A combined score below sixty.
- ✓ Poor financial situation with no willingness or ability to pay back.
- ✓ There are severe management issues.
- ✓ If there is a consistent decline in the financial situation of the facility (consecutive losses, negative net worth, excessive leverage), it should be degraded to this grade.

5.4.1.5 Proposal for Credit Line

Based on the branch valuation, ICRR ratings, and survey report, a credit line proposition is made. The majority of the firm and customer information, including the borrower's details, address, constitution, date of incorporation, sponsor, introducers, capital structure, business kinds, CIB report, stock, other bank information, SWOT analysis, etc., are also included in this credit line proposal. The branch manager will include remarks and suggestions on the customer and business in the credit line proposal. The branch manager's judgment is very important when it comes to the loan sanctioning process.

5.4.1.6 The permission of Bangladesh Bank

Rupali Bank would wait for Bangladesh Bank's approval after the credit line proposal. Bangladesh Bank will assess general business and client information. They will also ascertain whether all requirements and guidelines have been met. In addition to this, Bangladesh Bank will look up or obtain client and business information from other banks. Bangladesh Bank will sanction loans and advances once all procedures have been completed.

5.5 Rupali Bank Credit Monitoring

According to Rupali Bank PLC, lending and advances granted in accordance with the law lessen the likelihood that the debts would need to be repaid. At the Head Office, a distinct Corporate Division has been established and given the responsibility of promoting credit products, investigating new business prospects, and upholding efficient client connections. Additionally, departments for credit approval, administration, monitoring, and recovery have been established.

Since the Bank's founding, employees in the head office have been tasked with marketing and evaluating credit products, upholding positive client relations, and looking for new business opportunities. Another section, known as the Credit Administration section (CAD), was also established to manage mostly documentation facilities. As mandated by Bangladesh Bank laws, the Bank has divided its sections for marketing, approval, and monitoring/recovery. A number of variables are included in loan risk management, including the borrower's standing in the market, the security of the proposed loan arrangement, and an analysis of the borrower's historical performance.

5.6 Rupali Bank Bad Portfolio Recovery (PLC).

Rupali Bank follows several ways to recover bad portfolios from the client. As it is known to all loans are categorized into two parts;

- Unclassified loan
- Classified loan

In the first category, there are standard loans which also refer to good loans, which means they will be repaid by the client within a specific period. There also includes an SMA (Special Mention Account) which indicates to the bank that the loan can be classified portfolio. All the classified loan refers to non-performing loans. For that banks have to keep provisions which is a loss for the bank. That's why they typically follow afforested strides;

- Communication:

Firstly, the Rupali Bank recovery unit communicates with the client to identify the reason for the inability to pay the installment. They do it by phone, e-mail, or other communication modes. They don't want to take any legal procedures for any SMA-type loan.

- Physical visit:

Then they go to the client's personal place or business place to know the actual reason for inability to pay the installment. These steps took place when the bank didn't get any type of response from the client by communication.

- Judicial procedures:

In the last phase, they sued against the client whose loan became defaulted. This is the last phase for the bank to recover the bad portfolio. Banks don't want to follow any judicial process, because it is a lengthy process in Bangladesh. But if clients fail to pay the loan amount by implementing the above steps banks have to suit against this type of client. In those steps, banks require so many documents (sanction letters, charge documents) to prove that the client defaults.

These are the general procedures for recovering a bad portfolio.

- Special Asset Management- SME and Retail Banking:
- Legal Notice: SAM-S&R would arrange to serve the first legal notice, which would advise the default borrower to modify the sum due, on SME at DPD 145 and Retail at DPD 360. The second legal notice would be served following the bounce of the check or before litigation.
- Management of Write-offs: A special write-off policy was developed by Rupali Bank based on circulars from Bangladesh Bank. SAM takes the initiative to write down subpar portfolios in compliance with the policy if the following criteria are satisfied: a) Classification status will be Loss (BL) or Poor b) Full supply c) Lawsuit filed (under any state legislation)
- Special Asset Management & Credit Inspection - Wholesale Banking & Medium Business:

Credit Inspection: The corporate portfolio assessment, physical inspection of the client's premises and files, and compliance with Rupali Bank PLC policy on the credit granting procedure are all handled by the Credit Inspection through the File and Field level area.

Account for Early Alerts: The Early Alert Process is a useful tool and method used by Rupali Bank PLC to identify any decline in the accounts of its corporate and medium-sized firm clients. It also alerts the Bank to problem accounts early on, allowing for the necessary attention to be provided to prevent losses.

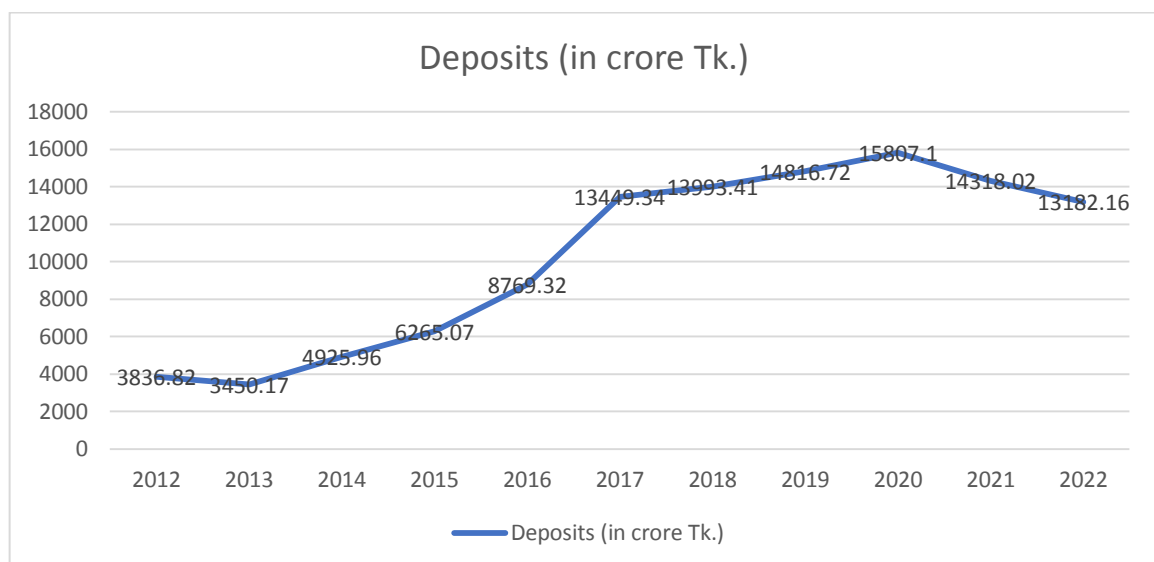
Chapter 6

Credit Risk Management Performance of Rupali Bank (PLC).

6.1 Trend Analysis

Trend analysis is a statistical approach that examines past patterns to predict how a particular variable will move in the future. Put another way, it's a technique that looks at previous behaviors in order to forecast future ones. The trends for credit-related indicators, such as total loan disbursements, the number of classified (NPL) and unclassified (Standard) loans, etc., are included in this study paper.

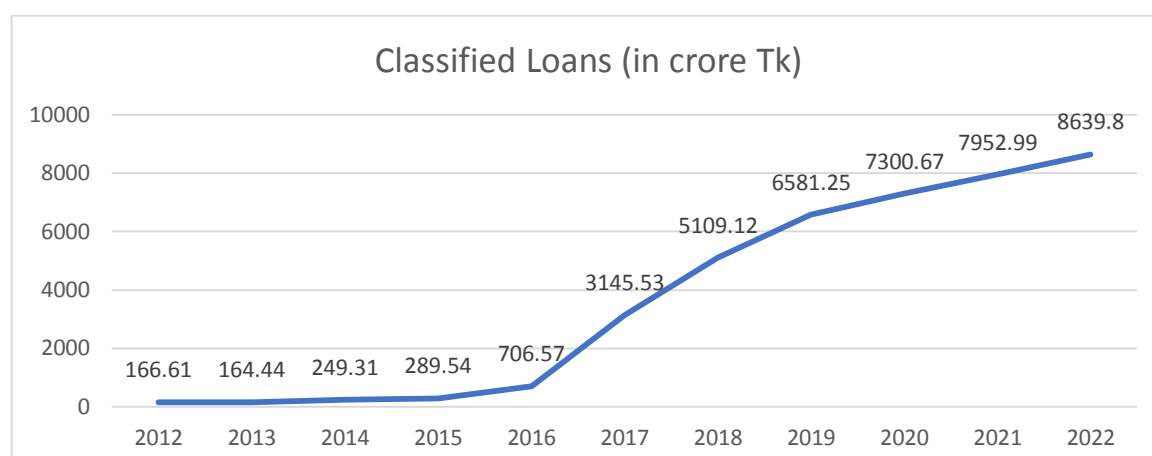
6.1.1 Trend of Deposit



Trend analysis:

From the above graphical analysis, it is justified that Rupali Bank PLC deposits were in a strong position till 2019 as their trend was an upward trend but deposits tended to become low from the year 2020, as their deposits in the last 3 years were; 15807.1, 14318.02, 13182.16 Cr. TK respectively which is less than in previous years which is a bad signal for a bank. It has happened for several reasons but I think the main reason behind it; is the trustworthiness of the customer on Rupali Bank PLC. People started to lose their trust in banks because of Recent scams. But recently Rupali Bank PLC has taken some important steps to gain the trust of the depositors again.

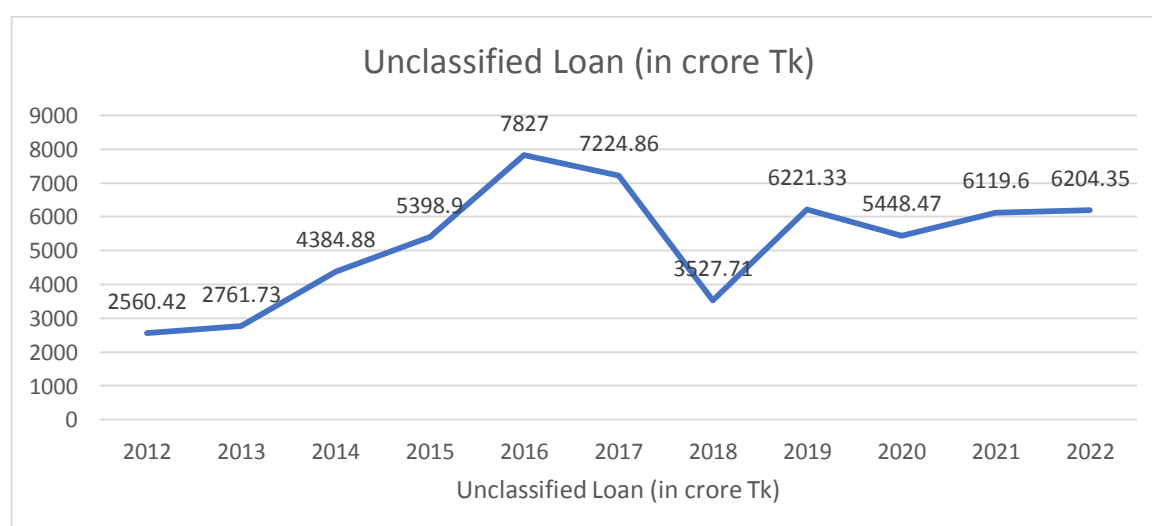
6.1.2 Trend of Classified loan (in crore Tk) (appendix h)



Trend analysis:

The graph above indicates that Rupali Bank PLC's non-performing loan (NPL) is trending upward. The NPL grew steadily between the years 2012 and 2015. However, their NPL amount increased significantly between 2016 and 2022. This demonstrates how ineffective CRM was throughout those year

6.1.3 Trend of Unclassified (Standard) loan (in crore Tk) (appendix o)

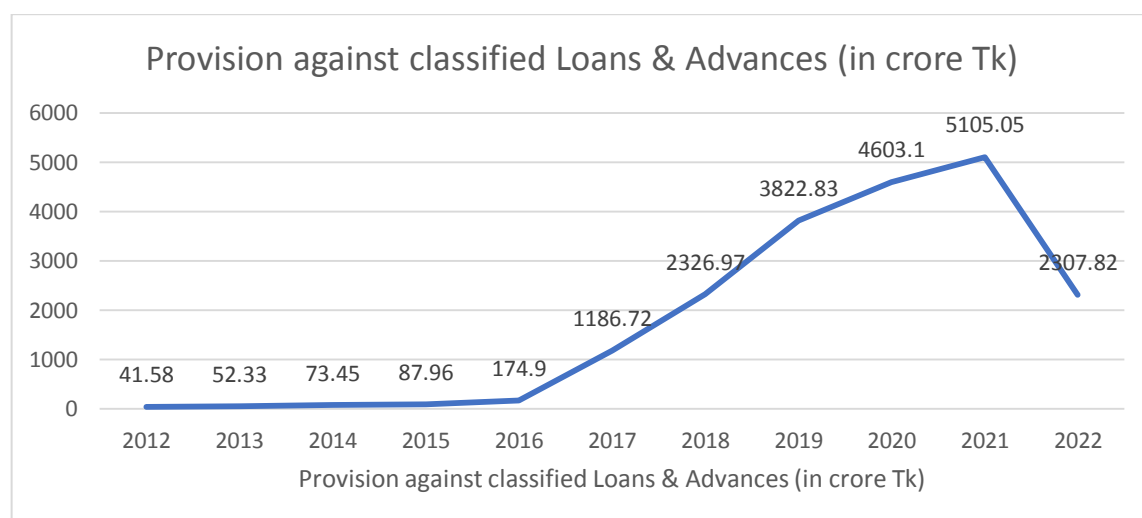


Trend analysis:

Based on the aforementioned graph, it appears that the trend for unclassified loans over a ten-year period is highly variable, showing increases in some years and decreases in others. I explain in the NPL trend section that a high percentage of NPL indicates CRM inefficiency. However, this graph also demonstrates how the significant NPL is a result of the substantial loan disbursement amount.

6.1.4 Provision (in crore Tk) against Classified Loans and Advances

(appendix u)



Trend analysis:

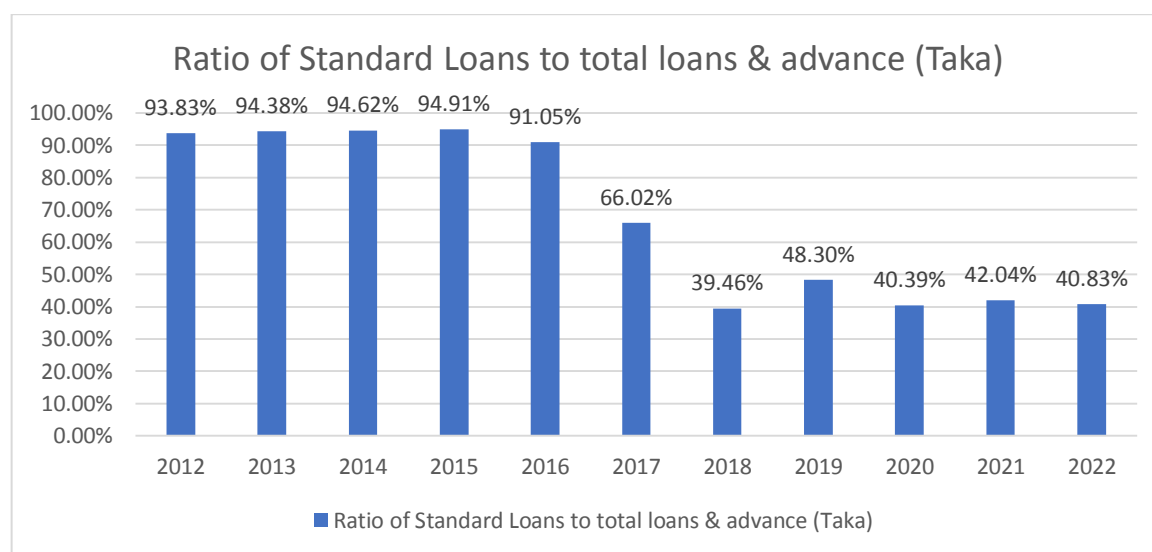
From the above graph, it is justified that there is an increasing trend in the provision for classified loans and advances of the Rupali Bank PLC in the last 9 years except 2022, in which it is 2307.82 Cr. That means in the last 9 years they emphasized more on classified loans and advances. It shows that in the year 2012, the amount of provision for classified loans and advances was 41.58 crore taka and in the next year the amount was 52.33 crore. The provision amount was higher in 2021, which was tk. 5105.05 crore.

6.2 Ratio Analysis

Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by comparing information contained in its financial statements. Here I will evaluate some ratios that indicate the performance of Rupali Bank over ten years.

6.2.1 Standard Loan to Total Loans Ratio (appendix a)

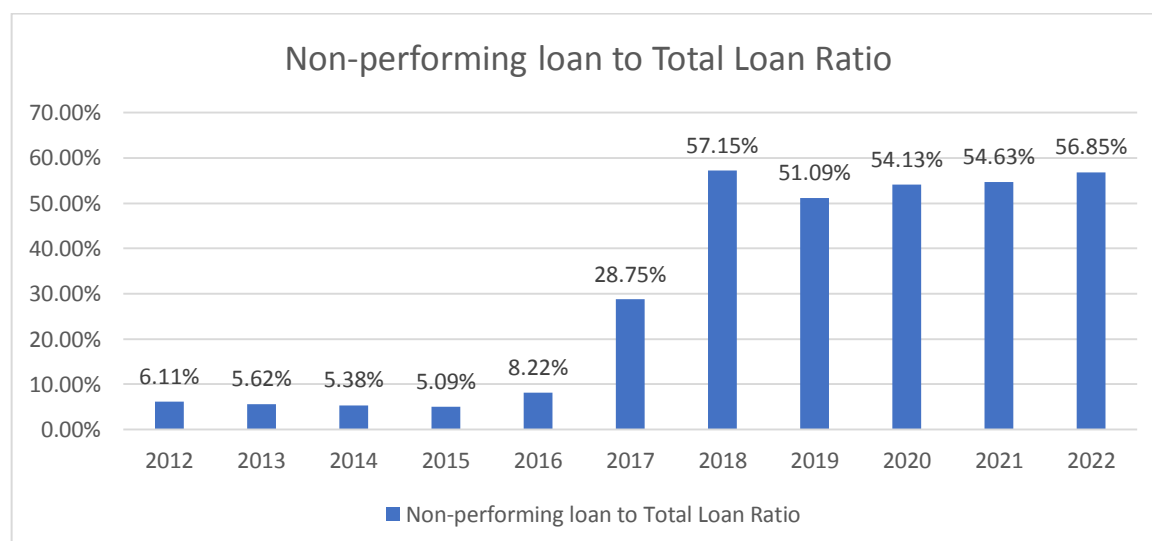
Graphical Presentation



Above the chart, it shows that the Standard Loan to Total Loans Ratio increased from year 2012-2015 but after that, it tended to fall which means that their NPL tends to rise. It shows their inefficiency in C

6.2.2 Non-performing loan to Total Loan Ratio (appendix b)

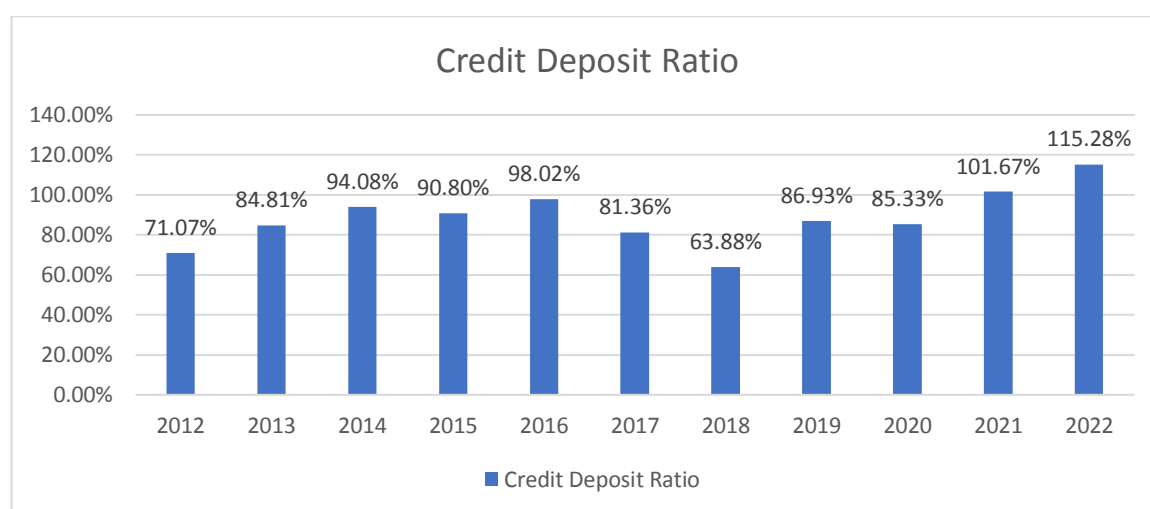
Graphical Presentation



The above chart shows that the NPL to total loan ratio was at a stable rate from the year 2012-2016, which was a single rate. But after that, they tend to rise because of their inefficiency in CRM. In the year 2022, it is very high with 56.85% of total loans.

6.2.3 Credit-Deposit Ratio (appendix c)

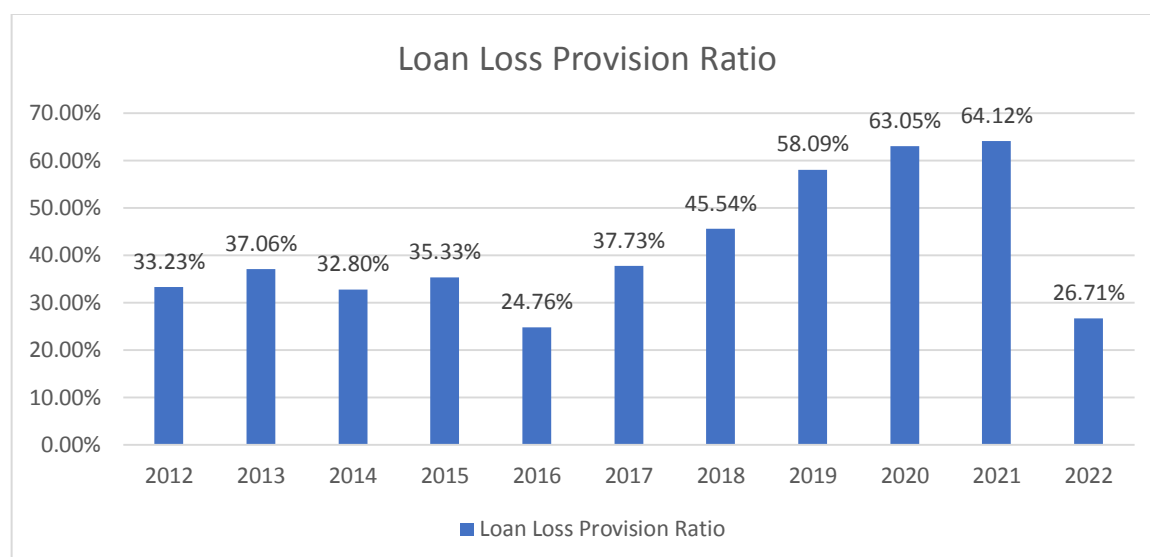
Graphical Presentation



From the above chart, it shows that their credit deposit ratio is on an increasing trend. This means that they provide more loans than their deposit. In the year 2022, it is very high with 115.28%.

6.2.4 Loan Loss Provision Ratio (appendix d)

Graphical Analysis



The above chart shows that the loan loss provision ratio is very fluctuating. It means that Rupali Bank PLC has to keep so much provision as their classified loan amount is very high. That's why they have to keep provisions against this. In the chart, it has increased over many years. It shows the CRM inefficiency of the bank.

Chapter 7

Findings of Summary, Suggestions, and Conclusion

7.1 Findings of Summary

- An investor's risk of loss stemming from a borrower who fails to make payments as agreed upon is known as credit risk. Default refers to this kind of event. Default risk and counterparty risk are other names for credit risk.
- The fact that banks and other financial organizations earn from the distribution of credit makes credit risk management crucial for the banking industry.
- Banks and other financial organizations must thus appropriately handle credit risk. A bank's present and future financial performance may be improved with effective CRM.
- The primary obstacles associated with CRM are the extra expenses related to staff motivation and training.
- A number of components make up the CRM process, including credit processing, approval, documentation, administration, disbursement, credit categorization monitoring, credit recovery, and more.
- The Rupali Bank PLC practices credit risk management in accordance with the guidelines provided by the Bangladesh Bank. Instead of concentrating on general credit, it usually addresses industrial credit policy.
- Units for asset management, operation, recovery, and approval make up Rupali Bank PLC CRM department.

7.2 Suggestions

- Rupali Bank PLC ought to adhere to the Bangladesh Bank's ICRR methodology.
- Rupali Bank PLC ought to retain a substantial amount as collateral for the loans.
- By managing loans properly, Rupali Bank PLC may reduce the non-performing loan (NPL) ratio.
- Rupali Bank PLC ought to give its staff members more CRM training.
- Employees of Rupali Bank PLC ought to receive adequate training in credit risk management.
- The recovery team should consist of effective staff since they possess the necessary information to retrieve debts successfully.

- There was no political pressure from senior management when credit was being given.
- It is necessary to eliminate nepotism while granting loans.

7.3 Conclusion

In summarising the research, it is imperative to acknowledge that a significant vulnerability of the Bangladeshi economy is the high amount of non-performing loans (NPL) inside the banking sector. A loan repayment plan with principal and interest amounts is supplied after the loan is approved. As per the bank laws of Bangladesh, a loan turns non-performing if the borrower doesn't make the planned payments of principal and interest for over 90 days. The ability of banks to approve new loans, pay back depositors, and turn a profit is all diminished as the percentage of non-performing loans rises. Should the number of NPLs continue to rise, the banking industry as a whole might experience a liquidity crisis, and individual banks might even fail.

Rupali Bank PLC has been operating profitably as one of Bangladesh's top financial institutions. Despite its many issues, the bank was extremely risk-averse due to its corporate experience and appropriate lending practices. To assess the risk of its goods and services, a highly competent and technologically advanced CRM department constantly works to the fullest extent of its abilities.

This paper's primary goal is to demonstrate banks' use of CRM. It explains the theoretical underpinnings, significance, workflow, benefits, and difficulties of CRM. It also discusses Rupali Bank PLC's CRM performance and practices. Lastly, it looks for any connections between the profitability of a bank and CRM performance. According to this data, a bank's profitability and CRM are positively correlated. Therefore, Rupali Bank PLC's profitability might increase if it practices appropriate credit risk management. Rupali Bank, Bangladesh, provides a perspective on all of these assessments.

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Appendix

Total Loans and Advances trend (appendix S)

Year	Total Loans & Advances (Tk. In crore)
2012	2726.91
2013	2926.15
2014	4634.15
2015	5688.47
2016	8595.57
2017	10942.28
2018	8939.28
2019	12880.7
2020	13488.28
2021	14556.86
2022	15196.8

Trend of classified loan (appendix h)

Year	Classified loans (in crore tk)
2012	166.61
2013	164.44
2014	249.31
2015	289.54
2016	706.57
2017	3145.53
2018	5109.12
2019	6581.25
2020	7300.67
2021	7952.99
2022	8639.8

Trend Unclassified Loan (appendix o)

Year	Unclassified Loan
2012	2560.42
2013	2761.67
2014	4384.88
2015	5398.9
2016	7827
2017	7224.86
2018	3527.71
2019	6221.33
2020	5448.47
2021	6119.6
2022	6204.35

Trend of Provision (appendix u)

Year	Provision against Classified Loans & Advances (in crore tk)
2012	41.58
2013	52.33
2014	73.45
2015	87.96
2016	174.9
2017	1186.72
2018	2326.97
2019	3822.83
2020	4603.1
2021	5105.05
2022	2307.82

Standard loan to total loan ratio (appendix a)

Year	Amount of Standard Loan (Taka)	Total Loans and Advance (Taka)	The ratio of Standard Loans to Total Loans and Advance (Taka)
2012	25604245829	27269131180	93.89 %
2013	27617360130	29261534342	94.38 %
2014	43848867094	46341513504	94.62 %
2015	53989096940	56884757885	94.91 %
2016	78270032892	85955762411	91.05 %
2017	72248613155	109428439155	66.02 %
2018	35277073988	89392858838	39.46 %
2019	62213286089	128807012281	48.30 %
2020	54484712002	134882802828	40.39 %
2021	61196070469	145568587491	42.04 %
2022	62043474865	151968053141	40.83 %

Non – Performing Loan to total loan ratio (appendix b)

Year	Amount of NPL (Taka)	Total Loans and Advance (Taka)	The ratio of NPL to total loans and advance (Taka)
2012	1666143915	27269131180	6.11 %
2013	1644498230	29261534342	5.62 %
2014	2493173427	46341513504	5.38 %
2015	2895434176	56884757885	5.09 %
2016	7065685261	85955762411	8.22 %
2017	31455310484	109428439155	28.75 %
2018	51091161633	89392858898	57.15 %
2019	65812501648	1288070112281	51.09 %
2020	73006863879	134882802828	54.13 %
2021	79529875921	145568587491	54.63 %
2022	86398013436	151968053141	56.85 %

Credit deposit ratio (appendix c)

Year	Total Loans and advances	Total deposit	Ratio
2012	27269131180	38368237432	71.07 %
2013	29261534342	34501698265	84.81 %
2014	46341513504	49259600843	94.08 %
2015	56884757885	62650734774	90.80 %
2016	85955762411	87693231280	98.02 %
2017	109428439155	134493447522	81.36 %
2018	89392858838	139934056098	63.88 %
2019	128807012281	148167229641	86.93 %
2020	134882802828	158070977543	85.33 %
2021	145568587491	143180240782	101.67 %
2022	151968053141	131821582933	115.28 %

Loan Loss Provision Ratio (appendix d)

Year	Classified – specific provision	Classified Loan	Ratio
2012	415840593	1,251,209,879	33.23 %
2013	523,394,422	1,412,346,626	37.06 %
2014	734,544,770	2,239,968,230	32.80 %
2015	879633200	2489790200	35.33 %
2016	1,749,348,055	7,065,685,261	24.76 %
2017	11,867,247,319	31,455,310,484	37.73 %
2018	23,269,738,665	51,091,161,633	45.54 %
2019	38,228,272,533	65,812,501,648	58.09 %
2020	46,030,965,186	73,006,863,879	63.05 %
2021	51,050,494,277	79,529,875,921	64.19 %
2022	23,078,179,129	86,398,013,436	26.71 %

Appendix 1

Variables Entered / Removed^a

Model	Variables Entered	Variables Removed	Method
1	CDR, IMCR, LLPR, CAR, NPLRUPALI BANK PLC		Enter

a. Dependent Variable: ROA

b. All requested variables entered

Appendix 2
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858 ^a	.736	.473	2.02499

a. Predictors: (Constant), CDR, IMCR, LLPR, CAR, NPLR

Appendix 3

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig
1 Regression	57.292	5	11.458	2.794	.142 ^b
Residual	20.503	5	4.101		
Total	77.795	10			

a. Dependent Variable: ROA

b. predictors: (Constant), CDR, IMCR, LLPR, CAR, NPLR,

Appendix 4
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
(Constant)	8.953	6.167		1.461	.204
1 NPLR	-.003	.099	-.023	-.026	.980
LLPR	-.145	.069	-.734	-2.114	.088
CAR	.067	.127	.341	.527	.621
IMCR	-.006	.020	-.205	-.306	.772
CDR	-.035	.071	-.180	-.499	.639

a. Dependent Variable: ROA