A Study on Status of Industrial Loans of Selected Banks of Bangladesh

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Abstract: Smooth and efficient flow of saving-investment process is a prerequisite for the economic development of a country. Bangladesh, being a developing country and with an underdeveloped capital market, mainly depends on the intermediary role of banks for mobilizing internal saving and providing capital to the investor. Thus, it matters greatly how well our financial sector is functioning. The process of economic development of Bangladesh has been seriously constrained by the continuing crisis of the accumulation of classified loans. As Loan is the prime asset of a bank, it is essential to know the asset quality of a bank, regulation helps to determine the financial health and efficiency of the banking sector. Besides, a proper loan classification and provisioning system ensures credibility of the financial system that in turn restores trust and confidence in the mind of depositors. Loan classification and provisioning system is also essential for regularizing follow-up, monitoring activities and improving the recovery position. However the objectives of the study are to explore the loans and advances of banks of Bangladesh, to find out the industrial loans of banks of Bangladesh and to calculate the percentage of non performing industrial loans of banks of Bangladesh. The study was documentary analysis type. The study was conducted in the area of Dhaka city in Bangladesh. Five Banks were selected for the study such as Sonali Bank Ltd, Janata Bank Ltd, Agrani Bank Ltd, Bangladesh Development Bank Ltd and Islami Bank Ltd. Data were collected from the annual report of the selected Banks. A common and very important problem in credit process is lack of monitoring client and adequate valuation of collateral. In absence of monitoring process the bank will fail to recognize early signs that asset quality will deteriorate and will miss the opportunities to work with clients to stem their financial deterioration and to protect the bank's position. In some cases, the failure to perform adequate due diligence and financial analysis and to monitor the client can result in a breakdown of control to detect credit related fraud.

1. INTRODUCTION

Credit risk management in a financial institution starts with the establishment of sound lending principles and an efficient framework for managing the risk. Policies, industry specific standards and guidelines, together with risk concentration limits are designed under the supervision of risk management committee. These policies, standards and procedures also govern how credit risk is identified, measured, monitored, reported and controlled. As market conditions change rapidly, adequacy and effectiveness of internal controls should be reviewed at least quarterly.

The diversity of the business and economic conditions has led to the development of highly sophisticated tools and models to measure the exposure of a financial institution to credit risk. In case of an individual loan portfolio, the probability of default, loss given default or credit rationing are the most commonly used ones to measure the exposure to credit risk. The invention of various credit scoring models that use observed loan applicants characteristics either to calculate a score representing the applicant's probability of default or to sort borrowers into different risk grades bring the ability to address credit risk on a new level.

Credit risk is the largest and most obvious source of risk in banking and it comes from a bank's credit portfolio. But again the use of financial techniques was limited to the study of income statement, balance sheet and cash flow statement only with the application of some traditional financial ratios like current ratio, gross profit margin, profit volume ratio, profitability index, debt service coverage ratio, debt-equity ratio, break-even point analysis, net present value, benefit cost ratio, internal rate of return, etc.

In order to manage the risk exposure which may come from such activities, the credit risk management practices is one of the important aspects in bank management and it must be proper and in systematic manner.

2. OBJECTIVES OF THE STUDY

1. To explore the loans and advances of banks of Bangladesh.
2. To find out the industrial loans of banks of Bangladesh.

3. To calculate the percentage of non performing industrial loans of banks of Bangladesh.

3. METHODOLOGY OF THE STUDY

3.1 Study area
The study was conducted in the area of Dhaka city in Bangladesh.

3.2 Sample size
Five Banks were selected for the study such as Sonali Bank Ltd, Janata Bank Ltd, Agrani Bank Ltd, Bangladesh Development Bank Ltd and Islami Bank Ltd.

3.3 Source of Data
For this research one type of data were used. Only secondary data were used for the study. To conduct this research, secondary data were collected from various sources including authentic writings, Annual Report of the selected Banks, Annual Report of Bangladesh Bank, Loans and advance statement of the selected Banks, books, thesis, articles, documents etc. of eminent authors, journals, statistical reviews, academic papers, government documents, newspapers, magazines, souvenirs, published and unpublished research works, internet homepages etc. relevant to the main theme of the study.

3.4 Data Analysis
Collected data were analyzed by using Computer Program Microsoft Excel.

4. RESULTS AND DISCUSSION

Table 1: Total Loans and Advances (Figure in million taka) of Sample Banks

Year	Sonali Bank Limited	Janata Bank Limited	Agrani Bank Limited	Bangladesh Development Bank Limited	Islami Bank Bangladesh Limited
2010	286098	225732.21	163260	9906.00	263225.13
2011	345991	257801.03	194060	10046.10	305840.56
2012	378147	305339.57	212660	14743.10	372920.72
2013	343451	285747.65	202970	15457.20	403194.80
2014	337554	319773.25	235090	16501.00	463375.47
2015	346346	349861.00	244800	18137.50	530187.00
2016	372860	367354.00	253444	18121.50	560000.00

Source: Annual Reports of Sample Banks, 2017

Total Loans and Advances (TK in millions) of Sample Banks have shown in the above table. From the result it was found that total Loans and Advances of Sonali Bank Limited, Janata Bank Limited, Agrani Bank Limited have been increasing continuously since 2010 to 2012. Then it declined in 2013 and 2014. Total Loans and Advances increased in 2015 and June 2016. In case of Bangladesh Development Bank Limited, total Loans and Advances have been increasing since 2010 to 2015. Up to June 2016 then it again in increasing trends. In case of Islami Bank Bangladesh Limited it was found that total Loans and Advances have been increasing since 2010 to June 2016. From the result it can be said that in case of Loans and Advances, Islami Bank Bangladesh Limited and Bangladesh Development Bank Limited performing continuous growth in each and every years.

Table 2: Industrial Loan of Sample Banks (Figure in Crore Taka)

Year	Sonali Bank Limited	Janata Bank Limited	Agrani Bank Limited	Bangladesh Development Bank Limited	Islami Bank Bangladesh Limited
2013	6225.08	3693.66	3890	691.8	20667
2014	5592.12	4049.95	4560	559.35	24952
2015	6176.35	5007	6780	579.07	27180
2016	6513.5	5716.18	7980	533.01	30819

| 2017 | 7161.59 | 6885.99 | 8960 | 511.12 | 35814 |

Source: Annual Reports of Sample Banks, 2018

Disbursement of Industrial Loan of Sample Banks has shown in the above table. From the result it was found that in 2013, disbursement of Industrial Loan of Sonali Bank Limited was TK. 6225.08 crore but in 2014 it decreases to TK.5592.12 crore. But for the next 3 years i. e. in 2015, 2016 and 2017 the disbursement of Industrial Loan was increasing trend which was significant for the Bank. In case of Janata Bank Limited, the disbursement of Industrial Loan for the last five years was increasing trend which was very significant for that Bank. In case of Agrani Bank Limited, the disbursement of Industrial Loan for the last five years was increasing trend which was very significant and positive indication for the growth for the said Bank. In case of Bangladesh Development Bank Limited, in 2013, disbursement of Industrial Loan was TK. 691.8 crore but in 2014 it decreases to TK.559.35crore, in 2015 it again increases to TK. 579.07 crore, in 2016 it again decreases to TK.533.01 crore. Lastly in 2017 the disbursement of Industrial Loan was TK. 511.12 crore. So, from the result it can be said that in case of disbursement of industrial loan, Bangladesh Development Bank Limited shows insignificant indication which is negative for the growth of that Bank. In case of Islami Bank Bangladesh Limited, the disbursement of Industrial Loan for the last five years was increasing trend which was very significant and positive indication for the growth for the Bank.

Table 3: Non Performing Industrial loan (Figure in CroreTaka)

Year	Sonali Bank Limited	Janata Bank Limited	Agrani Bank Limited	Bangladesh Development Bank Limited	Islami Bank Bangladesh Limited
2013	1748.02	89.92	978	290.24	596
2014	1666.45	248.88	1045	145.15	1058
2015	2449.54	565.85	1260	195.17	735
2016	2485.55	928.35	1298	254.28	634
2017	2377.05	1120.24	1390	235.38	679

Source: Annual Reports of Sample Banks, 2018

Non Performing Industrial loan has shown in the above table. From the result it was found that in 2013, the Non Performing Industrial loan of Sonali Bank Limited. was TK. 1748.02 crore (28.08%) but in 2014 it decreases to TK. 1666.45 crore (29.8%). It indicates that the steps or actions have taken in 2014 to mitigate the non performing industrial loan was successful. But in 2015 the Non Performing Industrial loan of Sonali Bank Limited increased to TK. 2449.54 crore (39.7%) which indicates that the steps or actions have taken in 2015 to mitigate the non performing industrial loan was not adequate so the non performing industrial loan have increased. In 2016, the Non Performing Industrial loan of Sonali Bank Limited increased to TK. 2485.55 crore (38.16%) which indicates that the steps or actions have taken in 2016 to mitigate the non performing industrial loan was not adequate so the non performing industrial loan have increased. In 2017, the Non Performing Industrial loan of Sonali Bank Limited decreased to TK. 2377.05 crore (33.2%) which indicates that the steps or actions have taken in 2016 to mitigate the non performing industrial loan was adequate so the non performing industrial loan have decreased.

Table 4: Percentage of Non Performing Industrial loan (in %)

Year	Sonali Bank Limited	Janata Bank Limited	Agrani Bank Limited	Bangladesh Development Bank Limited	Islami Bank Bangladesh Limited
2013	28.08%	2.43%	25.14%	41.95%	2.88%
2014	29.8%	6.15%	22.92%	25.95%	4.24%
2015	39.7%	11.3%	18.58%	33.7%	2.7%
2016	38.16%	16.24%	16.27%	47.7%	2.06%
2017	33.2%	20.67%	15.51%	46.05%	1.89%

Source: Annual Reports of Sample Banks, 2018

From the result it was found that in 2013, the Non Performing Industrial loan of Janata Bank Limited was TK. 89.92 crore (2.43%) but in 2014 it increases to TK. 248.88crore (6.15%). It indicates that the steps or actions have taken in 2014 to mitigate

the non performing industrial loan was not successful. But in 2015 the Non Performing Industrial loan of Janata Bank Limited increased to TK. 565.85 crore (11.3%) which indicates that the steps or actions have taken in 2015 to mitigate the non performing industrial loan was not adequate so the non performing industrial loan have increased. In 2016, the Non Performing Industrial loan of Janata Bank Limited increased to TK. 928.35 crore (16.24%) which indicates that the steps or actions have taken in 2016 to mitigate the non performing industrial loan was not adequate so the non performing industrial loan have increased. In 2017, the Non Performing Industrial loan of Janata Bank Limited increased to TK. 1120.24 crore (20.67%) which indicates that the steps or actions have taken in 2016 to mitigate the non performing industrial loan was not adequate so the non performing industrial loan have increased.

From the result it was found that in 2013, the Non Performing Industrial loan of Agrani Bank Limited was TK. 978crore (25.14%) but in 2014 it increases to TK. 1045 crore (22.92%). It indicates that the steps or actions have taken in 2014 to mitigate the non performing industrial loan was not successful. But in 2015 the Non Performing Industrial loan of Agrani Bank Limited increased to TK. 1260 crore (18.58%) which indicates that the steps or actions have taken in 2015 to mitigate the non performing industrial loan was not adequate so the non performing industrial loan have increased. In 2016, the Non Performing Industrial loan of Agrani Bank Limited increased to TK. 1298 crore (16.27%) which indicates that the steps or actions have taken in 2016 to mitigate the non performing industrial loan was not adequate so the non performing industrial loan have increased. In 2017, the Non Performing Industrial loan of Agrani Bank Limited increased to TK. 1390 crore (15.51%) which indicates that the steps or actions have taken in 2016 to mitigate the non performing industrial loan was not adequate so the non performing industrial loan have increased.

From the result it was found that in 2013, the Non Performing Industrial loan of Bangladesh Development Bank Limited was TK. 290.24 crore (28.08%) but in 2014 it decreases to TK. 145.15 crore (29.8%). It indicates that the steps or actions have taken in 2014 to mitigate the non performing industrial loan was successful. But in 2015 the Non Performing Industrial loan of Bangladesh Development Bank Limited increased to TK. 195.17 crore (39.7%) which indicates that the steps or actions have taken in 2015 to mitigate the non performing industrial loan was not adequate so the non performing industrial loan have increased. In 2016, the Non Performing Industrial loan of Bangladesh Development Bank Limited increased to TK. 254.28 crore (38.16%) which indicates that the steps or actions have taken in 2016 to mitigate the non performing industrial loan was not adequate so the non performing industrial loan have increased. In 2017, the Non Performing Industrial loan of Bangladesh Development Bank Limited decreased to TK. 235.38 crore (33.2%)which indicates that the steps or actions have taken in 2016 to mitigate the non performing industrial loan was adequate so the non performing industrial loan have decreased.

From the result it was found that the Non Performing Industrial loan of Islami Bank Bangladesh Limited was TK. 596 crore (2.88%) but in 2014 it increases to TK. 1058 crore (4.24%). It indicates that the steps or actions have taken in 2014 to mitigate the non performing industrial loan was not successful. But in 2015 the Non Performing Industrial loan of Islami Bank Bangladesh Limited decreased to TK. 735crore (2.7%) which indicates that the steps or actions have taken in 2015 to mitigate the non performing industrial loan was adequate so the non performing industrial loan have decreased. In 2016, the Non Performing Industrial loan of Islami Bank Bangladesh Limited decreased to TK. 634 crore (2.06%) which indicates that the steps or actions have taken in 2016 to mitigate the non performing industrial loan was adequate so the non performing industrial loan have decreased. In 2017, the Non Performing Industrial loan of Islami Bank Bangladesh Limited decreased to TK. 679 crore (1.89%) which indicates that the steps or actions have taken in 2016 to mitigate the non performing industrial loan was adequate so the non performing industrial loan have decreased.

5. CONCLUSION

In every economy bankers are regarded as a creator of socio-economic development as they collect funds from the surplus units of the society and to channelize the same to the deficit units (user groups) of the society with the objectives to deploy the funds in economic activities for enhancing industrial growth and employment generation. But to earn positive return or profit from the credit activities is also the prime consideration for their survival. Since banking business is a mechanism of channeling depositors' funds as advance from one unit to another unit of a society and the derivative products of this mechanism are to earn profit, generate employment etc. that's why bankers are to take a lot of precautions before sanction and also disbursing the depositors' money as credit. Banks deal with the depositors' money and the banking philosophy is primarily based on 'trust' and any inconsistency in the case of disbursing credit may breach the trust and confidence of the depositors and which may ultimately create the financial distress in the economy. Thus, an efficient banker should always

think about the probability of non-repayment of credit (credit risk) before sanction and disbursing it to the borrowers. In this context, the use of sophisticated risk grading techniques shows paramount importance for measuring the financial risk, business or industry risk, management risk, security risk and relationship risk of the borrowers so as to minimize the risk exposure of credit which may come from default. The banks in Bangladesh should follow the techniques for measuring risk by customizing these according to our socio-economic circumstances and organizational set up. Each bank may establish data bank for its own consumption at the time of taking credit decision under the well equipped credit screening techniques. Besides the data bank, well accepted norms and industry average may be developed based on the clients' information in sector-wise funding for better practicing financial analysis. Uniform practices for preparing projected financial statements may be established in the banks for the clients who will seek facilities from the banks. Most of the banking problems have been either explicitly or indirectly caused by weakness in credit risk management. Several credit losses in the banking system usually reflect simultaneous problem in several areas such as concentration, credit processing, failure of proper and adequate due diligence, inadequate monitoring and supervision.

The absence of testing and validation of new techniques of credit decision making is important problem. Many banks that experienced asset quality problems due to lack of effective credit review process.

6. RECOMMENDATIONS

The recommendations of the study are as follows:

1. Concentration shouldincludeconcentration of credits to singleborrower or counterparty, a groupofconnectedcounterparties, and sectors or industries.

2. Bankingsupervisorsshouldhavespecificregulationslimitingconcentrationstooneclientor set of related clients, and,infact, should also expect banks to set muchlower concentrations. Banks are to explore techniques to identify concentrations based on common risk factors.

3. Many credit problems reveal basic weaknesses in the credit sanctioning and monitoring process. A thorough credit assessment (or basic due diligence) needs for financial information based on sound accounting standards and timely macroeconomic and flow of funds data. When this information is not available or reliable, banks may dispense with financial and economic analysis and support credit decisions with subjective information.

4. The purpose of credit review should provide appropriate checks and balances to ensure that credits are made in accordance with bank policy & guidelines and to provide an independent judgment of asset quality.

5. An effective credit review department andindependent collateral valuation shouldbe provided for protective measures.

6. Effective 'stress testing' which takes account of business or product cycle effects isone approach to incorporating into credit decisions a fuller understanding of a client's credit risk.

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