

# Status of Classified Loan: A Study on Private Commercial Banks of Bangladesh

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## Abstract

Credit creation and management are the main operations of banks and the prime sources of banks' revenue. So, a good loan is the stair of banks' growth as well as of economic development of a country, but a classified loan can be a threat not only for banks' survival but also for the overall financial system of a country. This paper mainly tries to present a comprehensive picture of present condition of classified loan in the Private Commercial Bank (PCB) of Bangladesh. In order to do so, a study has been initiated to find the trend of classified loan, its categories, provisioning system and relation to profitability by using some percentages and ratios. In Bangladesh, the banks are classified into four generations, based on establishment period. For the analytical purpose, three consecutive year's (2015–2017) data, collected from 20 sample banks selected randomly from four generations, have considered. This study mainly uses secondary data collected from annual reports of sample banks, central bank, related websites and published articles. The result of this research indicates that the classified loan has a significant negative impact on banks' profitability. By analyzing the quantitative data, it is found that there is a decreasing trend of classified loan from 1st generation to 4th generation, but it's not smooth and is very slow. This paper also identifies some multidimensional reasons for the classified loan and proposes some corrective measures, which will ensure a sustainable economic development for the upcoming future.

**Keywords:** Profitability, Provision, Trend, Generation, Bangladesh Bank

## Introduction

Efficient and smooth flow of saving-investment process is considered as a pre-condition for economic development of any country. Banking system plays an intermediary role in this case because it mobilizes domestic savings and provides necessary capital to the investors. Since Bangladesh is a developing country

having an underdeveloped capital market, its economic development mainly depends on banking industry not only for supporting saving – investment culture, but also for facilitating economic activities such as production, distribution, exchange and consumption of wealth. Actually, a bank is acting like a heart in the economic structure and the loan or investment is the lifeblood of it. However, this lifeblood is frequently polluted by a germ familiarize as a classified loan or default loan, which ultimately deteriorates the health of the entire economic system.

Classified loan is not a very recent problem in Bangladeshi economy; rather, this phenomenon started at the early stage of independence. In the early 1980s, government's credit expansion policy, feeble infrastructure of bank, unskilled employee, etc., led the banking industry to experience a high default loan (Islam & Liakat, 1999). Default loan is one of the most crucial problems of banking sector of Bangladesh for last few decades.

## Loan Classification Method

A classified loan is the term used for any loan that a bank examiner has deemed to be in danger or defaulting (BB, Field Survey Report, 2017). Loans are usually classified by the lending bank, whenever the bank has reasons to believe that the borrower would not be able to repay the loan. In fact, the classified loan is not a problem of respective bank; rather, it has an enormous impact on the entire banking system of the country. So, Bangladesh bank has taken different initiatives and provided guidelines regarding these loans from time to time. According to the last update, all loans and advances will be grouped into four categories namely: (a) continuous, (b) demand, (c) fixed-term loan (d) short-term agriculture and micro credit. For the classification purpose, Bangladesh Bank

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define classifying system such as standard, Special Mention Account (SMA), sub-standard, doubtful and bad/loss. In the banking terminology, sub-standard, doubtful and bad loans are broadly termed as classified loan and

standard, Special Mention Account (SMA) are under unclassified loan (BB, BRPD Circular No. 14/2012). Current classification rules for each types of loans have been presented in Table 1.

**Table 1: Present Status of Loan Classification**

Types of Loan	Rules for Over Due	Period Over Due	Status of Classification	
Continuous	If not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as overdue from the following day of the expiry date.	All unclassified loan other than SMA	Standard	Unclassified loan
		02 months or more, but less than 03 months	SMA	
		03 (three) months or beyond but less than 06 (six) months.	Sub-standard	Classified loan
		06 (six) months or beyond but less than 09 months	Doubtful	
		09 (nine) months or beyond.	Bad/Loss	
Demand	If not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as overdue from the following day of the expiry date.	All unclassified loan other than SMA	Standard	Unclassified loan
		02 months or more, but less than 03 months	SMA	
		03 months or beyond but not over 06 months from the date of expiry or claim by the bank or from the date of creation of forced loan.	Sub-standard	Classified loan
		06 (six) months or beyond but not over 09 (nine) months from the date of expiry or claim by the bank or from the date of creation of forced loan.	Doubtful	
		09 (nine) months or beyond from the date of expiry or claim by the bank or from the date of creation of forced loan.	Bad/Loss	
Fixed Term Loan	In case of any installment or part of installment of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installment will be treated as overdue from the following day of the expiry date.	All unclassified loan other than SMA	Standard	Unclassified loan
		02 months or more, but less than 03 months	SMA	
		If the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months	Sub-standard	Classified loan
		If the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months	Doubtful	
		If the amount of 'past due installment is equal to or more than the amount of installment(s) due within 09 (nine) months	Bad/Loss	
Short Term Agriculture And Micro Credit	The Short-term Agricultural and Micro-Credit if not repaid within the fixed expiry date for repayment will be considered past due/ overdue after six months of the expiry date.	All unclassified loan other than SMA	Standard	Unclassified loan
		Less than 12 months	SMA	
		12 months or more but less than 36 months	Sub-standard	Classified loan
		36 months or more but less than 60 months	Doubtful	
		More than 60 months	Bad/Loss	

Source: Bangladesh Bank, Banking Regulation & Policy Department (BRPD) Circular No. 14.

## Literature Review

The term “classified loan” has become a contemporary issue in financial institution. There are a lot of research

works related to classified loan not only in Bangladesh but also in whole world, due to its importance for banks' survival.

## Classified Loan and Its Status

Choudhury and Adhikary (2002) stated that classified loan is a multiclass concept because of its classification variety, which is usually based on length of overdue. But the IMF mentioned 90 days as the criteria for identifying the classified loan (IMF, 2005). Hou and Diekinson (2007) argued that, pass, Special Mention, Substandard, Doubtful and loss these five-tier loan classification system were required by US Federal Regulated Bank. This classification is almost similar to Bangladesh where loans are classified into Substandard, Doubtful and bad/loss (BRPD circular no. 14/2012). There is a slight variation in loan classification system in Pakistan, because there are four categories of classified loan namely Other Asset Especially Mentioned (OAEM), Substandard, doubtful and loss exist in Pakistan (Badar & Javid, 2013). In India, 180 days or two quarter of a year is considered as very important period in case of payment of loan installment because if a loan is past due for 180 days, it is termed as default loan (Rathore, Malpani & Sharma, 2016).

In Bangladesh, the status of classified loan is different for different types of banks. Especially, state-owned commercial banks have the worst condition. It needs to be mentioned that the Islamic banking system has comparatively better position in recovery status. Moreover, their prudential selection of investment portfolio improves their profitability ratio (Ahmed, Rahman & Ahmed (2006)). Adhikary (2006) found an alarming condition of nationalized banks for the amount and ratio of classified loan. Siddik and Zaman (2015) made a comparison between a private commercial bank and a state-owned commercial bank, and found a better performance of the former. They also revealed the fact that the government sector banks faced a problem in both loan sanction and recovery processes. Almost same result was found by Banik and Das (2015) when they analyzed the loan recovery procedure of nationalized banks and private sector banks. They mentioned poor recovery condition of government banks in spite of having a large amount of loan. Lata (2015) mentioned that from 2006 to 2013, the ratio of classified loan in case of government commercial bank was more than 50%. More specifically, Jamal Hossain (2017) mentioned total default loan in Bangladesh according to Bangladesh bank report stood at over Tk.65731 crore in September 2016. He also added that in 1999, the classified loan ratio was 41.1% while the internationally accepted tolerable limit is 2–3%.

Not only in Bangladesh but also in many other countries for example in Pakistan, the classified loan had an anxious amount. In Pakistan, the overall amount of default loan became more than doubled within 3 years from 285 billion at start of 2009 to 572 billion at the end of 2011. (Badar & Javid, 2013, p. 41). Ntiamoah et al. (2014) mentioned that loan default became an increasing problem that threatened the sustainability of microfinance institution in Ghana. In India, the classified loan also has a terrible picture and increasing trend. The public sector banks of India touched Rs. 3.61 lakh crore default loan at the end of December 2015. The combined net loss of 20 public sector banks (PSB) stood at Rs. 16,272.34 crore for the fourth quarter ended March 2016 as bad loans situation worsened. PSBs registered net profit of Rs. 4,063.58 crore in the corresponding quarter (Rathore et al., 2016, p. 21).

## Reason and Suggestion for Classified Loan

There are many reasons for the classified loan and these reasons again vary for types of bank, purpose of loan, economic factor, social culture and like other circumstances. In Bangladesh, Hoque and Hossain (2004) mentioned that working capital shortage is a reason for increasing classified loan. But Adhikary (2006) found a poor enforcement of law and insufficient policy measures for loan recovery worked as strong motivating factors to the borrower to become a defaulter. Khanom et al. (2013) mentioned political influence as the main problem in Bangladesh in case of loan sanction process, which ultimately creates the classified loan. Diversion of fund by customer, concealing important information during loan application and improper credit collection policy were mentioned in their research work as the result of primary survey on 14 commercial banks of Bangladesh. With all these reasons, Hossain (2017) added unhealthy competition among bankers and faulty loan sanction process as the causes of the classified loan in Bangladesh. But in the neighboring country India, Rathore et al. (2016) found some other reasons behind the classified loan such as lack of proper monitoring and sincerity in corporate culture, frequent change in economic policy and asset classification criteria, non-transparent accounting policy and auditing practice. Badar and Javid (2013) mentioned that in Pakistan, economic cycle is very important for loan recovery. Because, they found in short-run economic factors have negligible impact but in long run, inflation and exchange rate become very strong reasons for classified loan. Richard (2011) indicated that in Tanzania,

improper management of fund by the borrower and diversion of fund to non-profitable sector may be the reason of high classified loan ratio in the banking industry of the country. Korankey (2014) identified five specific reasons for the classified loan in Ghana. These reasons were high-interest rate, inadequate loan size, poor appraisal, lack of monitoring and improper client selection. Proper and regular monitoring of sanctioned loan is very essential because Ntiamoah et al. (2014) found that when a loan is unpaid or overdue for a long time, the possibility of defaulting that loan become very high.

From time to time, different authors had suggested different remedial measures for the classified loan. Haque and Hossain (2008) stated that reduction of interest rate can be a solution for loan default culture in Bangladesh. But Siddique and Zaman (2015) mentioned that paying concentration to short-term loan, taking legal action, imposing restriction on poor industries, and proper monitoring of loan were the keys to success in loan recovery process of Jamuna bank (a private commercial bank of Bangladesh). Hossain (2017) argued that ensuring proper documentation and monitoring of loan, employee training and raising ethical values are essential to reduce the amount of classified loan. He also added that the role of Bangladesh bank, in this case, cannot be ignored in any way. Same opinion was provided by Haneef et al. (2012) for banking industry of Pakistan. In their study, they argued that the State Bank of Pakistan needs to ensure timely monitoring in order to minimize default loan. In their opinion, proper risk management can reduce classified loan as well as improve profitability of banks. Same suggestion was found from Korankey (2014) for microfinance institution of Ghana. He emphasized on regular supervision of central bank. But Rathore et al. (2006) pointed out some different aspect for Indian economy like arranging recovery camp, psychological support to client and sacrificing some amount for genuine defaulter. Mental support can be a real way of collection of loaned money in the banking industry of Tanzania where a good and trustworthy relation between banker

and borrower is considered as a good way of reducing default loan (Richard, 2011). Adebisi and Mathew (2015) suggested that proper valuation of collateral is essential for loan sanction process and appropriate penalty or punishment can reduce default loan in banking industry of Nigeria.

## Objectives of the Study

- To examine the overall picture of classified loan.
- To review the trend of classified loan on the basis of generation of bank.
- To evaluate the impact of classified loan on banking industry as well as overall economy.
- To find out root causes and their practical effect on loan classification and recommend some suggestions for future policy directions.

## Methodology and Limitation

### Source of Data

This study is mainly analytical, descriptive in nature, and prepared on the basis of secondary data. These data are mainly collected from audited financial statement of 20 sample banks. Apart from this, data also collected from newspaper, magazines, official website of sample banks and different publications of Bangladesh Bank such as survey report, annual report, circular, etc. Further different working papers, published articles and journals have been pursued enriching literature review.

### Population and Sample

This study is based on private commercial banks of Bangladesh. So, the population comprised of total 33 scheduled PCBs. In Bangladesh, all the banks are categorized into four generations according to their establishment period. We have conveniently selected 20 samples banks from four generation. Five sample banks have taken from each generation.

**Table 2: Population and Sample**

<i>Generation</i>	<i>Total Population</i>	<i>Sample</i>	<i>No. of Population</i>	<i>No. of Sample</i>
1 <sup>st</sup> : (Before 1991)	AB Bank, IFIC Bank, National Bank, Pubali Bank, The City Bank, United Commercial Bank, Uttara Bank	IFIC Bank, National Bank, The City Bank, United Commercial Bank, Uttara Bank	7	5
2 <sup>nd</sup> : (1991 to before 1999)	Prime Bank, Dhaka Bank, Dutch-Bangla Bank, Eastern Bank, NCC Bank, Southeast Bank	Prime Bank, Dhaka Bank, Dutch-Bangla Bank, Eastern Bank, NCC Bank	6	5

Generation	Total Population	Sample	No. of Population	No. of Sample
3 <sup>rd</sup> : (1999-2010)	Jamuna Bank, Bangladesh Commerce Bank, Bank Asia, BRAC Bank, Mercantile Bank, Mutual Trust Bank, One Bank, Premier Bank, Standard Bank, Trust Bank	Bank Asia, BRAC Bank, Mercantile Bank, One Bank, Premier Bank,	10	5
4 <sup>th</sup> : (2011-present)	Modhumoti Bank, Farmers Bank, NRB (Global) Bank, NRB Bank, Meghna Bank, Midland Bank, NRB Commercial Bank, South Bangla Agriculture & Commerce Bank, Shimanto Bank	NRB Commercial Bank, Modhumoti Bank, NRB Bank, Meghna Bank, Midland Bank	10	5
Total Number			33	25

### Research Tool

For quantitative analysis, three consecutive years (2015–2017) have been taken into consideration. The collected data have been analyzed, summarized and interpreted to make the study more congruent. For this purpose, simple statistical tools such as percentage, ratios and average (using MS excel) have been used.

This study is based on private commercial bank. No specialized or Islamic or government sector bank is included in this research, which is considered as a limitation. Moreover, no primary data are involved in this study.

### Findings and Analysis

This segment of the study consists of two parts. The first part comprises different dimensions of classified loan

with the aim of presenting the current picture of classified loan in the private commercial bank in Bangladesh. The second part is constructed with trend analysis.

### Present Status of Classified Loan

Loan is the most important asset of a bank and efficient banks always try to make an appropriate balance between return and risk associated with the loan. Classified loan is inherent in loan process and it is acceptable up to a certain level. But, it becomes a threat when the amount exceeds the tolerance limit.

The most important indicator of quality of loan portfolio is the ratio of classified loan to total loan. To evaluate the present loan condition of PCBs of Bangladesh, Table 3 is constructed by taking the average of three years (2015–2017) data of 20 sample banks.

**Table 3: Ratio of Classified and Unclassified Loan to Total Loan**

	Bank	Total Loan (BDT)	Classified Loan		Unclassified Loan	
			Amount (BDT)	% of Total Loan	Amount (BDT)	% of Total Loan
1 <sup>st</sup> generation	IFIC	146,550,328,723	9,364,411,276	6%	137,653,370,596	94%
	CITY	171,569,479,241	10,701,532,090	6%	160,867,947,152	94%
	UCBL	227,371,234,939	15,837,780,273	7%	211,533,454,666	93%
	NBL	214,858,558,246	20,407,148,000	9%	194,451,410,246	91%
	UBL	88,112,394,824	6,611,740,852	8%	81,500,653,973	92%
2 <sup>nd</sup> generaton	Prime	173,466,362,845	10,940,439,819	6%	162,525,923,027	94%
	DBL	135,515,501,197	6,700,816,262	5%	128,814,684,935	95%
	EBL	154,393,212,575	4,319,884,128	3%	150,073,328,447	97%
	DBBL	169,901,551,941	8,089,468,959	5%	161,812,082,982	95%
	NCC	125,830,682,159	7,724,676,407	6%	118,106,005,752	94%

	Bank	Total Loan (BDT)	Classified Loan		Unclassified Loan	
			Amount (BDT)	% of Total Loan	Amount (BDT)	% of Total Loan
3 <sup>rd</sup> generation	Bank Asia	165,836,752,392	7,766,171,280	5%	158,070,581,111	95%
	Brack	174,535,009,848	7,323,415,039	4%	167,211,594,809	96%
	Mercantile	158,970,692,289	7,187,126,129	5%	151,783,566,160	95%
	One	136,408,745,176	6,457,255,722	5%	129,951,489,454	95%
	Premier	113,610,776,138	6,106,588,621	5%	107,504,187,517	95%
4 <sup>th</sup> generation	Meghna	20,944,376,932	379,618,185	2%	20,564,758,746	98%
	Modhumoti	19,100,980,650	44,468,998	0%	19,056,511,652	100%
	Midland	20,742,786,488	246,923,537	1%	20,495,862,951	99%
	NRBC	34,531,939,861	429,489,159	1%	34,102,450,702	99%
	NRB	15,534,230,269	276,848,827	2%	15,257,381,442	98%

Source: Annual report of respective banks from 2015 to 2017. (Appendix-2); Computation: average and percentage by Ms Excel

Table 3 shows the average amount of 3 years’ total loan, classified loan and unclassified loan. Table 3 also presents the classified loan as a percentage of total loans and percentage of unclassified loan to total loan. From Table 3, it is clear that NBL and Modhumoti bank are standing in two extreme boundaries on the basis of the ratio of classified loan to total loan. In NBL, total loan consists of 9% classified and 91% unclassified loan, which is an alarming figure and an indicator of poor initiative to control and recovery of classified loan. This is because, in the concerned period Bangladesh bank reported that the overall ratios of gross classified loan to total loan in PCBs are 4.9% in 2015, 4.6% in 2016 and 5.8% in June 2017 (BB annual report 2016–2017, pp:35). So, the 3 years industry average is 5%. So, the performance of NBL is below industry average. On the other hand, Modhumoti bank is performing very well as its classified loan is below 1% of total loan. A detailed

analysis revealed that between the 3 years, in 2015 this bank had no classified loan (Appendix-2). As a result, the ratio of classified loan of this bank is the lowest one. The Table 3 also indicates that not only ratio but also taka amount represents the highest and lowest position of NBL and Modhumoti bank, respectively, in case of classified loan. Among the other 18 banks UCBL and UBL are also in danger zone although IFIC, city, prime and NCC bank also has the ratio of classified loan to total loan higher the industry average. On the other side, Midland and NRBC are in a very good position. Meghna bank and NRB are also performing well in this regard. All the other banks are also consistent with the industry average.

This situation can be more clearly understood by the following graph which presents total loan amount and indicates the portion of classified and unclassified loan in total loan.

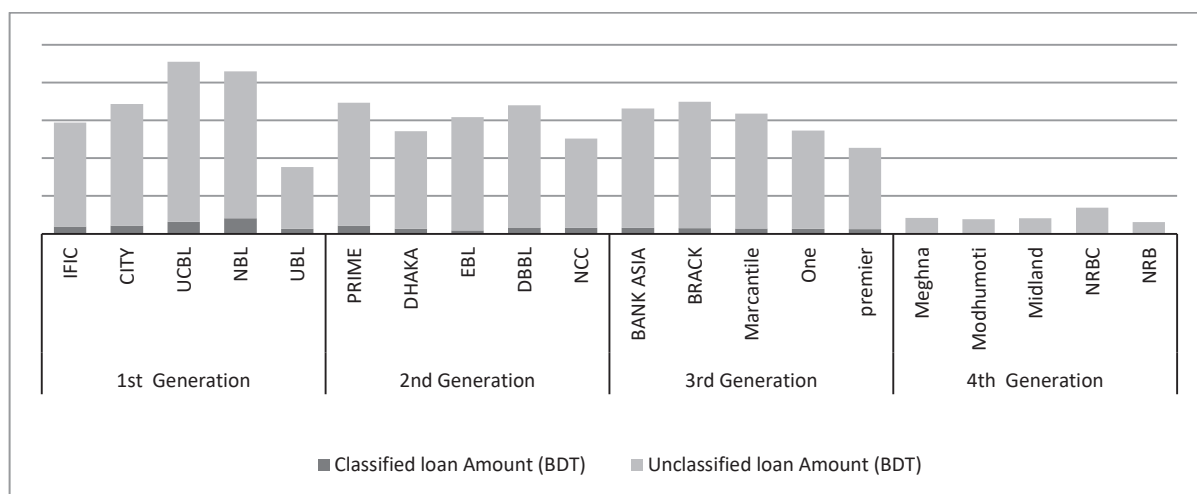


Fig. 1: Classified Loan, Unclassified Loan and as well as Total Loan

From the graph, it is clear that newly established banks have very little amount of classified loan as compared to other banks and the amount of classified loan is very negligible in these banks. On the contrary, first-generation banks are burdened with huge classified loan amount and ratio.

Another important indicator of present loan condition of PCB is ratio of classified loan to unclassified loan. The following table (Table 3) presents 3 years' average amount of classified and unclassified loan with ratio of classified loan to unclassified loan.

**Table 4: Ratio of Classified Loan to Unclassified Loan**

	Bank	Unclassified Loan (BDT)	Classified Loan	
			Amount (BDT)	% of Unclassified Loan
1 <sup>st</sup> generation	IFIC	137,653,370,596	9,364,411,276	7%
	City	160,867,947,152	10,701,532,090	7%
	UCBL	211,533,454,666	15,837,780,273	7%
	NBL	194,451,410,246	20,407,148,000	10%
	UBL	81,500,653,973	6611740852	8%
2 <sup>nd</sup> generation	Prime	162,525,923,027	10,940,439,819	7%
	DBL	128,814,684,935	6,700,816,262	5%
	EBL	150,073,328,447	4,319,884,128	3%
	DBBL	161,812,082,982	8,089,468,959	5%
	NCC	118,106,005,752	7,724,676,407	7%
3 <sup>rd</sup> generation	Bank Asia	158,070,581,111	7,766,171,280	5%
	Brack	167,211,594,809	7,323,415,039	4%
	Mercantile	151,783,566,160	7,187,126,129	5%
	One	129,951,489,454	6,457,255,722	5%
	Premier	107,504,187,517	6,106,588,621	6%
4 <sup>th</sup> generation	Meghna	20,564,758,746	379,618,185	2%
	Modhumoti	19,056,511,652	44468997.67	0%
	Midland	20,495,862,951	246,923,537	1%
	NRBC	34,102,450,702	429,489,159	1%
	NRB	15,257,381,442	276848827	2%

Source: Annual report of respective banks from 2015 to 2017. (Appendix-2); Computation: average and percentage by Ms Excel

From Table 4, it is found that NBL has the worse condition and Modhumoti bank has the best condition among all private banks of Bangladesh. It is observed that among 20 sample banks, more than 50% (11 banks) banks have a ratio of classified loan to unclassified loan between 5 and 7%. So, it is clearly observed with regard to classified loan that the percentage is quite moderate for fourth-generation banks and there exists much variation in second-generation banks. So, a critical analysis reveals that Tables 3 and 4 represent a parallel result.

The performance of a bank is generally measured by its net profit. The ROI (Return on Investment) is a powerful profitability ratio and an indicator of banks' investment decision. As loan is the main source of banks income, the ratio of net profit to total loan indicates how efficiently bank invests its loan and advance and how much profit is earned from this source. In order to know the profit earning capacity of loan, Table 5 is prepared by dividing net profit by total loan.

**Table 5: ROI (Return on Investment)**

Bank	Total Loan (BDT)	Net Profit (BDT)	ROI
IFIC	146,550,328,723	1,389,610,569	0.9%
City	171,569,479,241	3,214,034,046	1.9%
UCBL	227,371,234,939	3,013,294,457	1.3%
NBL	214,858,558,246	4,705,972,406	2.2%
UBL	88,112,394,824	1,530,008,329	1.7%
Prime	173,466,362,845	1,797,677,662	1.0%
DBL	135,515,501,197	1,466,296,291	1.1%
EBL	154,393,212,575	2,427,408,774	1.6%
DBBL	169,901,551,941	2,344,272,550	1.4%
NCC	125,830,682,159	1,735,126,285	1.4%
Bank Asia	165,836,752,392	2,055,784,833	1.2%
Brack	174,535,009,848	4,048,441,354	2.3%
Mercantile	158,970,692,289	2,212,786,690	1.4%
One	136,408,745,176	2,054,843,533	1.5%
Premier	113,610,776,138	1,485,659,159	1.3%
Meghna	20,944,376,932	402,698,238	1.9%
Modhumoti	19,100,980,650	657,752,882	3.4%
Midland	20,742,786,488	599,687,762	2.9%
NRBC	34,531,939,861	689,197,950	2.0%
NRB	15,534,230,269	401,518,152	2.6%

Source: Annual report of respective banks from 2015 to 2017. (Appendix-3); Computation: average, and percentage by Ms Excel

Table 5 can be a great source to understand how much profit is earned a bank from its loan product. The IFIC bank shows a horrible result in case of ROI as the result is below 1%, which means only tk.0.7 is earned from a loan of tk.100. Here, Modhumoti bank is in the best position. Now, if we want to make a comparative idea about profitability performance of bank, we get newly established banks are in good position. In Table 5, it is seen that there is an increasing flow of ROI from first generation to fourth generation. This result is functionally related to Tables 3 and 4. Because in those tables, the banks which had high ratio of classified loan show low ROI. This result is similar to Mahmud et al. (2016), where they found there is a negative relation between classified loan and profit, i.e., the greater the ratio of classified loan to total loan, the lower the profitability of bank.

A very important aspect of this study is to measure the present magnitude of loans classified as substandard, doubtful and bad/loss as per the loan classification criteria of Bangladesh bank (shown in Table 1). Table 6 presents a complete picture of classified loan consisting of substandard, doubtful and bad/loss.

**Table 6: Status of Classified Loan: Substandard, Doubtful and Bad/Loss**

Bank	Classified Loan	Substandard		Doubtful		Bad/Loss		Total
		Amount (BDT)	% of Total	Amount (BDT)	% of Total	Amount (BDT)	% of Total	
IFIC	8,896,958,127	1,933,338,571	21%	756,864,655	9%	6,206,754,901	70%	100%
City	10,701,532,090	1,371,284,996	13%	519,736,583	5%	8,810,510,512	82%	100%
UCBL	15,837,780,273	1,665,917,433	10%	581,173,047	4%	13,590,689,793	86%	100%
NBL	20,407,148,000	786,405,000	4%	2,306,317,667	11%	17,314,425,333	85%	100%
UBL	6,611,740,852	930,226,106	14%	599,134,795	9%	5,082,379,951	77%	100%
Prime	10,940,439,819	977,360,685	9%	358,686,029	3%	9,604,393,105	88%	100%
DBL	6,700,816,262	605,007,579	9%	787,704,065	12%	5,308,104,618	79%	100%
EBL	4,319,884,128	716,220,659	17%	272,782,093	6%	3,330,881,377	77%	100%
DBBL	8,089,468,959	573,663,233	7%	224,210,663	3%	7,291,595,062	90%	100%
NCC	7,724,676,407	195,719,755	3%	609,196,131	8%	6,919,760,520	89%	100%
Bank Asia	7,766,171,280	402,472,702	5%	417,451,900	5%	6,946,246,678	90%	100%
Brack	7,323,415,039	1,000,046,563	14%	787,899,116	11%	5,535,469,361	75%	100%
Mercantile	7,187,126,129	1,146,105,483	16%	528,795,343	7%	5,512,225,303	77%	100%
One	6,457,255,722	258,441,063	4%	471,397,915	7%	5,727,416,743	89%	100%
Premier	6,106,588,621	251,764,447	4%	195,193,011	3%	5,659,631,163	93%	100%
Meghna	379,618,185	121,800,054	32%	111,515,360	29%	146,302,771	39%	100%
Modhumoti	44,468,998	6,552,543	15%	7,238,998	16%	30,677,457	69%	100%
Midland	246,923,537	21,304,292	9%	25,795,958	10%	199,823,287	81%	100%

Bank	Classified Loan	Substandard		Doubtful		Bad/Loss		Total
		Amount (BDT)	% of Total	Amount (BDT)	% of Total	Amount (BDT)	% of Total	
NRBC	429,489,159	95,791,377	22%	21,256,827	5%	312,440,955	73%	100%
NRB	276,848,827	43,384,052	16%	55,284,930	20%	178,179,845	64%	100%

Source: Annual report of respective banks from 2015 to 2017. (Appendix-2); Computation: average, ratio and percentage by Ms Excel

Table 6 shows a comprehensive picture of both amount and ratio. The average of 3 years' amount of substandard, doubtful and bad/loss loan as well as total classified loan and the portion hold by each of these three categories of classified loan have presented in this table. According to this table, the lion portion of classified loan is absorbed by bad loan. Except Meghna bank, all the sample banks have a percentage of bad loans more than 60% and this range is up to 93%. It means classified loan is mainly representing bad loan although there are two other categories but their amounts are very negligible and their ratios to total classified loan are not more than 32%. It is depicted from the table that the premier bank has on one side the highest bad loan as a result, in another side, the lowest substandard and doubtful loan. In the same way, Meghna bank has the highest ratio of substandard and doubtful loan; on the contrary, the lowest

ratio of bad loan to total classified loan. Among the other 18 banks, the variation of result of ratios is not much significant. Meghna bank shows the result of ratio of three categories of classified loan which is quite different from all other sample banks, because only this bank shows a comparatively close result for the ratio of substandard, doubtful and bad/loss loan to total classified loan.

There is a very important implication of these ratios on provisioning amount of a bank. The maintenance of provision against default loan is mandatory according to Bangladesh bank guideline. The amount of provision depends on the categories of classified loan since all classified loan doesn't require the same amount of provision. Bangladesh Bank has a guideline for the base of provision which is presented in Table 7.

**Table 7: Present Provisioning Status in Bangladesh**

Types of Loan	Types of Provision	Classification Status	Rate of Provision
Continuous Demand Fixed Term Loan	General Provision	<i>Unclassified Loan</i>	
		All unclassified loans of Small and Medium Enterprise (SME)	0.25%
		All unclassified loans (other than loans under Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock dealers etc., Special Mention Account as well as SME Financing.)	1%
		<i>Unclassified amount for Consumer Financing</i>	5%
		Unclassified amount for (i) Housing Finance and (ii) Loans for Professionals to set up business under Consumer Financing Scheme.	2%
		<i>Unclassified amount for Loans to Brokerage House, Merchant Banks, Stock dealers, etc.</i>	2%
		Outstanding amount of loans kept in the 'Special Mention Account'.	5%
	Specific Provision	<i>Classified Loan</i>	
		Sub-standard	20%
		Doubtful	50%
Bad/Loss		100%	

Types of Loan	Types of Provision	Classification Status	Rate of Provision
Short Term Agriculture and Micro Credit	General Provision	Unclassified loan	
		Standard	1%
		SMA	1%
	Specific Provision	Classified Loan	
		Sub-standard	5%
		Doubtful	5%
	Bad/Loss	100%	

Source: Bangladesh Bank, Banking Regulation & Policy Department (BRPD) Circular No. 14, 15, 16

Table 7 indicates that bad loan is most harmful for profitability of a bank because it requires 100% provision where doubtful and substandard loan require 50 and 20%, respectively. So, the large the portion of bad loan is the big the amount of provision. Again, provision amount is strongly related to net profit because provision is generated from earning of the bank. Provision for loan and advance is kept before calculating net profit, i.e. after deducting provision from income, bank get its net profit. So, the

amount of provision reduces the amount of net profit. So, the amount of provision can be a good representation of profitability of a bank although there are many other strongly influencing factors, which present the efficiency of banking activities. The amount of provision for loan and advance made in each of the 3 years have taken into consideration; taking the average of these 3 years, amount Table 8 is constructed to show the relation between net profit and provision.

**Table 8: Relation Between Net Profit and Provision**

Generation	Bank	Gross Interest Revenue (GIR)	Net Profit		Provision for Loan	
			Amount	% of Gross Interest Revenue	Amount	% of Net Profit
1 <sup>st</sup>	IFIC	13,353,486,755	1,389,610,569	10%	1,732,008,523	125%
	CITY	16,050,315,035	3,214,034,046	20%	1,781,207,909	55%
	UCBL	21,433,623,300	3,013,294,457	14%	1,705,257,485	57%
	NBL	20,332,930,036	4,705,972,406	23%	2,131,000,000	45%
	UBL	9,701,574,140	1,530,008,329	16%	724,166,667	47%
2 <sup>nd</sup>	PRIME	14,778,179,061	1,797,677,662	12%	3,101,816,667	173%
	DBL	13,005,272,946	1,466,296,291	11%	1,897,890,733	129%
	EBL	13,760,976,631	2,427,408,774	18%	2,330,502,302	96%
	DBBL	15,850,540,790	2,344,272,550	15%	699,067,656	30%
	NCC	11,710,838,310	1,735,126,285	15%	892,819,916	51%
3 <sup>rd</sup>	Bank Asia	14,952,906,918	2,055,784,833	14%	2,136,590,506	104%
	Brack	18,571,186,108	4,048,441,354	22%	2,118,741,208	52%
	Mercantile	14,689,817,348	2,212,786,690	15%	1,498,131,219	68%
	One	13,229,246,562	2,054,843,533	16%	1,456,774,512	71%
	premier	10,756,575,744	1,485,659,159	14%	746,666,667	50%
4 <sup>th</sup>	Meghna	2,278,686,122	402,698,238	18%	121,742,583	30%
	Modhumoti	2,294,271,055	657,752,882	29%	67,313,333	10%
	Midland	2,228,476,343	599,687,762	27%	125,803,161	21%
	NRBC	3,846,224,062	689,197,950	18%	225,175,746	33%
	NRB	1,749,146,481	401,518,153	23%	100,472,904	25%

Source: Annual report of respective banks from 2015 to 2017. (Appendix-3); Computation: average, ratio and percentage by Ms Excel

From Table 8, it is discovered that IFIC, Bank Asia, Prime Bank and DBL made the provision of more than 100% of net profit. Modhumoti bank has the lowest (only 10%) and Prime bank has the highest (173%) ratio of provision to net profit. It needs to mention here that not only ratio but also taka amount indicates that these two banks are standing in two tails. Here, it is seen that Prime bank has the highest amount of provision which is almost double of its net profit. This table presents a clear relation between net profit and provision because on one hand IFIC, Bank Asia, Prime and DBL have the highest ratio of provision to net profit, on the other hand, these four banks have the lowest ratio of net profit to gross interest revenue. It means in spite of having enough revenue, these banks can't get good profit because of high provision against loan and advance. In the opposite side, Modhumoti bank has lowest amount and ratio of provision and has the highest ratio of net profit. So, it is evident from the above discussion that there is a negative relation between provision and net profit.

By summarizing all the findings from the above tables, we can conclude that classified loan has a strong impact on profit-earning capacity of a bank. The banks which have high classified loan have low ROI. It means that there is a negative relation between classified loan and ROI. So, low classified loan indicates high ROI, and large amount of classified loan reduces ROI of a bank (Tables 3, 4, 5). In our country, classified loan mainly indicates a bad loan. The portions of substandard and doubtful loans are insignificant (Table 6). This bad loan has a great impact on profit of the bank, since Bangladesh Bank requires 100% provision against bad loan (Table 7). As a result, many banks cannot make enough profit in spite of having huge

revenue only for high bad loan. It is found that banks with the high ratio of provision to net profit have low ratio of net profit to interest revenue and vice versa. So, provision and net profit are negatively related to each other. It means if provision increases, net profit decreases and a decrease in provision leads to an increase in net profit (Table 8).

An important finding regarding NBL, which needs to be mentioned here is that in the concerned period, surprisingly NBL shows high profitability in Table 4 in spite of having highest classified loan amount and ratio in Tables 1 and 3. Critical investigation of such an exceptional result reveals, according to Bangladesh Bank guideline, that this bank is required to maintain provision an average provision of 13,946,266,700 for loan and advance for the concern periods, whereas the bank maintained an average provision of tk. 8,674,286,366. So, it is clear that this bank maintained much lower provision than the required provision and the shortage of provision is tk.5, 271,980,334. Among 20 sample banks, this bank has the highest shortage amount (Appendix-4). As a result, in spite of having a large amount of classified loan, this bank has a very good ROI. Among the 20 sample banks, NBL has the largest amount and ratio of classified loan. So, according to our findings, it would have the lowest ROI but for its provisioning system, it shows a comparatively low ratio of provision and consequently a high ratio of net profit to gross revenue (Table 8).

### Trend Analysis

With a view to getting the idea of trend of classified loan in the private sector commercial bank of Bangladesh, Table 9 is prepared.

**Table 9: Trend Analysis**

	Bank	Classified Loan			Provision as a % of NP	ROI	NP as a % of GIR
		as a % of Total Loan	as a % of Unclassified Loan	as a % NP			
1 <sup>st</sup> generation	IFIC	6.4%	7%	674%	125%	0.9%	10%
	CITY	6.2%	7%	333%	55%	1.9%	20%
	UCBL	7.0%	7%	526%	57%	1.3%	14%
	NBL	9.5%	10%	434%	45%	2.2%	23%
	UBL	7.5%	8%	432%	47%	1.7%	16%

	Bank	Classified Loan			Provision as a % of NP	ROI	NP as a % of GIR
		as a % of Total Loan	as a % of Unclassified Loan	as a % NP			
<b>1<sup>st</sup> Generation Average</b>		<b>7.3%</b>	<b>8%</b>	<b>480%</b>	<b>66%</b>	<b>1.6%</b>	<b>17%</b>
2 <sup>nd</sup> Generation	PRIME	6.3%	7%	609%	173%	1.0%	12%
	DBL	4.9%	5%	457%	129%	1.1%	11%
	EBL	2.8%	3%	178%	96%	1.6%	18%
	DBBL	4.8%	5%	345%	30%	1.4%	15%
	NCC	6.1%	7%	445%	51%	1.4%	15%
<b>2<sup>nd</sup> Generation Average</b>		<b>5.0%</b>	<b>5%</b>	<b>407%</b>	<b>96%</b>	<b>1.3%</b>	<b>14%</b>
3 <sup>rd</sup> Generation	Bank asia	4.7%	5%	378%	104%	1.2%	14%
	Brack	4.2%	4%	181%	52%	2.3%	22%
	Mercantile	4.5%	5%	325%	68%	1.4%	15%
	One	4.7%	5%	314%	71%	1.5%	16%
	Premier	5.4%	6%	411%	50%	1.3%	14%
<b>3<sup>rd</sup> Generation Average</b>		<b>4.7%</b>	<b>5%</b>	<b>322%</b>	<b>69%</b>	<b>1.6%</b>	<b>16%</b>
4 <sup>th</sup> Generation	Meghna	1.8%	2%	94%	30%	1.9%	18%
	Modhumoti	0.2%	0%	7%	10%	3.4%	29%
	Midland	1.2%	1%	41%	21%	2.9%	27%
	NRBC	1.2%	1%	55%	33%	2.0%	18%
	NRB	1.8%	2%	69%	25%	2.6%	23%
<b>4<sup>th</sup> Generation Average</b>		<b>1.3%</b>	<b>1%</b>	<b>53%</b>	<b>24%</b>	<b>2.6%</b>	<b>23%</b>

Source: Annual report of respective banks from 2015 to 2017. Computation: average, ratio and percentage by Ms Excel

This Table 9 mainly focuses on generation-wise movement of classified loan. The ratio of classified loan to total loan, to unclassified loan and to net profit represents a clear decreasing trend from first generation to fourth generation. It means in different aspects, classified loan is gradually reducing day by day in PCBs in Bangladesh. Definitely, it is a positive aspect for the banking industry of Bangladesh. Because decreasing trend of classified loan results in an increase in earning and profitability of the bank. That's why the last two columns of the Table 9, show an increasing trend of profitability of banks in 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> generations. Here, notable findings about first generation is that in the three column, it shows a different result from other generations. As classified loan shows a downward trend, it is obvious that provision will follow the trend, and profitability trend would be upward and which is clearly found in second generation to fourth generation. But in case of first generation, although there is highest classified loan in all aspect, the ratio of provision to net profit is not the highest one and consequently ROI and net profit ratio are very good. Here, the main notable bank is NBL, because among the five banks of this generation, this bank has the highest classified loan, but lowest

provision and highest profitability ratio. It means in spite of having huge default loan, because of non-maintenance of adequate provision against default loan, the profitability ratio of this bank does not show the real scenario. Critical investigation reveals that this bank has a big shortage in the amount of maintained provision as compared to required provision, which has been explained in the first part of findings, and analysis and related data showed in Appendix-3. If we carefully analyze the Table 9, we find only for NBL the first generation shows a different picture from other generations. Except the provisioning matter of NBL, the findings of this research are very clear. Classified loan is positively related to provisioning amount and negatively related to profitability. There is a decreasing trend in the amount and ratio of classified loan according to generation. Consequently, provisioning trend is downward and profitability ratio is gradually increasing from first generation to fourth generation.

Although in the last few years, the amount of classified loan is gradually reducing; still, it is a great problem of banking sector, because it has a multidimensional impact on bank management and profitability, which ultimately affect the whole economic system of a country.

The foremost impact of classified loan is reducing profit earning capacity and cash generating ability of a bank. On one side, classified loan stops interest income without stopping fund management cost; on the other side, huge classified loan requires a high amount of provision which finally leads to lower net profit of the bank. This low net earning indicates poor return on investment, return on asset and return on shareholders' equity. Moreover, default loan blocks the amount of money till recovery; as a result, bank faces liquidity problem and is unable to sanction new loan. This situation adversely affects investment not only by reducing fund availability for investment but also by increasing borrowing cost resulting from high interest applied on bank loan. This ultimately makes the investment more expensive for marginal investor and turns small investors out from capital market. Moreover, in crisis situation, banks often try to reduce their risky assets and change investment portfolio by changing the asset composition. Such defensive action may affect the corporate debtors since banks firstly choose to recover corporate loans. This is also harmful for investment situation. Classified loan also has an adverse impact on international trade. In case of Letter of Credit (L/C), foreign importer and exporter always choose financially solvent bank as their financial partner. A bank with unhealthy financial condition creates the fear of loss to the importer. At the same time, foreign exporter also has fear of nonpayment of trade money. Actually classified loans hamper the overall industrialization and economic development of a country through declining investment and international trade.

If a bank is burdened with heavy classified loan the stockholders are deprived from dividend and capital appreciation. It may be a reason of reducing shareholders' confidence on board of directors. At the same time, the confidence of the general public about financial solvency of a bank also reduces due to unhealthy financial condition of the bank.

Banks with high classified loan have lack of fund to provide loan as per their commitment. Moreover, to meet their regular operating expense, banks are likely to levy higher interest rates on loans, which create a big interest burden for the borrower and ultimately push them to become defaulters. So, classified loan again creates default borrower. This situation is termed as "Credit

Crunch" (Krueger & Tornell, 1999). The credit crunch situation works as a cycle to reduce the cycling flow of fund and increasing classified loan again and again.

## Root Causes of Classified Loan and Remedial Measures in this Regard

There are so many reasons behind classified or default loan. But, some reasons are very deeply related to default culture by pursuing loans to default from multi angle.

Political influence is such a reason which has multidimensional impact on loan and advance. On one side, due to strong political pressure, bankers are bound to sanction loan to specially mentioned persons despite of having their bad reputation regarding fund embezzlement. On another side, political unrest and violation hamper regular business operation so businessmen do not get money back from business and finally are unable to repay the loan timely. There is another side that, politically powerful persons sometimes take the loan with the tendency of not to repay it and they use their political power to protect themselves from legal action. At times, when persons involve in opposite political party face different political harassment, they cannot operate their regular business. So, they become defaulters.

In many cases, aggressive and target-oriented banking, due to unhealthy competition among banks, creates default loans. In the banking industry of Bangladesh, there is a large number of private commercial banks offering almost same loan product to the investors. There is a competition among the banks to expand their business. As loan is the main source of income of a bank, managers are often over burdened by the targets of loan disbursement set by the bank authority. This situation not only results in excess loan sanction to the investors without considering actual needed fund according to their business size, but also pursues bankers to provide loan without considering borrowers' character, experience, capital, business knowledge, collateral, etc. As a result, *firstly* unskilled businessmen cannot properly utilize this large amount of fund to generate sufficient income necessary to repay big amount of installment; *secondly* due to inadequate collateral, banks are unable to collect the amount of default loan. So, the bank faces real loss.

Managerial Inefficiency of bank is a reason that accelerates loan default process in a different way. Lack

of proper nursing and monitoring of continue loan, not taking instant proper action for substandard loan, reluctance in rescheduling of loan when necessary, not informing the higher authority about the irregular payment of installment, ignoring the necessity of showing classified loan in balance sheet, being unable to take proper legal action for bad loan, etc., are considered as the signs of poor loan management of bank. All these reasons have pragmatic impact on loan default process. Lack of monitoring of sanctioned loan gives the opportunity to the borrowers to avoid timely payment of installment. Again not taking proper action against defaulters encourages other borrowers in nonpayment of loan. Moreover, if bank disburses loan without sufficient mortgage or properly verifying legal documents of mortgage property, the client feels immunity that he is free from legal obligation for loan repayment. Again sometimes, defaulters complaint that they become defaulted due to increased project cost arising from delayed disbursement of loan by the bank.

There are some macro-economic factors which broadly deteriorate the overall economic and financial condition of a bank. For example, monopoly market, unhealthy competition, dumping tendency in local market make loss for small business and even sometimes push them out of market. So, they became bankrupt and defaulter. Again, frequent change in government policy regarding business sometimes stands as a reason of loss of investors and leads them to become defaulters. Sudden imposition of import or export duty, increasing VAT rate, providing subsidy to any specific industry, imposing very strict rules in any business, technological advancement, change of market condition, unemployment, inadequate port facility, infrastructural support, etc., have a strong impact on business condition of a country. If these factors negatively affect any business then the investors become defaulters.

All the business persons of Bangladesh are not fully aware of pros and cons of fundamental business analysis. Many of them have no formal education, training and experience of business. As a result, they can't take timely and prudential decision regarding business expansion, new product development, strategic management, etc. Sometimes, they invest money in non-profitable sectors or transfer fund to abroad for personal interest, which does not generate operating income. In addition at the initial period, high fixed cost requires high revenue to generate net profit which is too difficult to earn by a new

investor having very little knowledge of surviving in the competitive market. Again, they may not have enough consciousness regarding compound interest, hidden charge of transactions, terms and conditions of bank loans, etc. Taking this advantage, some dishonest bankers do not properly mention all instructions and pursue borrowers to take loan without any consideration. It can be a crucial reason of default loan. Besides internal conflict among partners also causes business loss. Of course the number of willful defaulters is not very negligible in our country.

Some unavoidable occurrences such as fire, death, natural calamity, family mishap, etc., are also responsible for default loan. There are many other reasons behind loan classification. But all the reasons are not equally responsible in all situations. Reasons vary from bank to bank and borrower to borrower.

The banking industry of Bangladesh needs to progress toward sustainable economy in order to ensure growth and development of the country. But, classified loan is such a factor which causes economic stagnation problem in the financial sector. So, with a view to reducing default or classified loan, together with respective banks, Bangladesh bank, the regulatory body of government, entrepreneurs or businessman and all other related parties need to become conscious and take necessary steps in this regard.

Inefficient loan management is a major cause of increasing classified loan. So, banks should give emphasis on sound loan management and ensure cooperation, sincerity and accountability in the credit policy. In order to do so, banks can format a Credit Counseling Committee (CCC) with highly qualified persons having excellent capability of independent review, which will centrally manage and monitor the loan. The CCC will try to understand the mindset, capability, experience and behavior of borrower, real purpose of loan, marketability of product, etc. The CCC will have to give deep thought to the following issue.

- No compromise with due diligence in the sanctioning process.
- Each and every terms and conditions of loan clearly explained to the borrowers.
- Selection of real entrepreneurs and identify risk-sensitive borrowers with reference to geographical and industry-wise risk sensitivity.
- Verification of all necessary legal documents.

- Strong internal control and high moral value among bankers to prevent corruption.
- Adequate and fair valuation of collateral.
- Maintenance of direct interaction with borrower by discussion, meeting, physical visit, etc.
- Evaluation of borrowers' business condition by checking periodic financial report.
- Detection of sickness symptom at the early stage to take immediate remedial steps.
- Discussion with troubled borrower and giving advice or guideline if necessary.
- For genuine defaulters, offering interest waiver or extending loan (if necessary) to get rid of difficulties and do regular business.
- Recovery camp or fair to encourage borrowers to repay loan.
- Negotiation of borrowers to recover loan and solve problem outside the court with a view to avoid lengthy legal process.
- Proper legal action, if necessary.

Needs to play a vital role to reduce the classified loan and can take the following steps:

- Formulate a uniform collateral valuation policy that strictly has to maintain all banks in the country. In this connection, Bangladesh Bank can establish a collateral information data warehouse at its head office.
- The existing loan classification system is uniform for all. But Bangladesh Bank may think of customizing the process on the basis of the capacity of the borrower and strength of his business.
- Strengthen the monitoring and supervisory activities in order to ensure that all scheduled banks must comply with credit policy. Arrangement of different seminar, workshop, training, etc., on regular interval to notify credit policy and guideline to all banks is a good way in this regard.
- Bangladesh Bank can specify loan layout to prevent the unhealthy competition among banks.
- Establishing a central information database of all the client so that any bank can find the credit worthiness and historical loan repayment trend of a client before disbursing loan.

Classified loan is a threat not only for a bank but also for the whole industry. So, it should be a matter of great concern for the government. In this connection, government and political parties need to give attention in the following terms.

- Government policies linked with business such as VAT, tax, export, import, port facility etc., should be business friendly.
- Banking sector should be free from politics and the legal procedure to recover loan should be prompt.

Finally, we have to remember that the banking sector is a golden source of economic backup for a country. It is not possible for any single bank or person to reduce classified loan overnight; rather, all the concerned bodies or persons have to work in this regard from their respective places.

## Conclusion

Classified loan is an acute problem in the financial sector of Bangladesh. It is obvious that a weak banking system cannot contribute to the strengthening process of financial condition of a country. This paper clearly finds that classified loan is directly responsible for weakening the banking system of a country by decreasing profitability and liquidity of banks. From the economic view point, classified loan creates an obstacle in economic growth by causing a decrease in loanable fund and capital adequacy ratio. In the long run, this classified loan can be a reason of insolvency of bank and losing customers' and investors' confidence, which ultimately creates a threat for the survival of the bank. In spite of all these negative aspects, it is a matter of hope that this research finds a decreasing trend of classified loan among the generations in the private commercial banks of Bangladesh. Definitely, it is a positive aspect and a sign of consciousness in loan management. But, it's not enough. To bring down the classified loan to the tolerable limit, the banks have to strictly follow and maintain each and every rule, regulation and guideline of Bangladesh Bank. Bangladesh Bank also has the responsibility to ensure timely and proper auditing and monitoring of loan management of banks. The importance of ethics in the financial activities cannot be ignored in any way. But, it needs to be remembered that no suggestion, recommendation and thinking will work effectively unless and until all the concerned parties move forward with a positive approach.

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