

Internship Report
on
“Credit Risk Management of Southeast Bank Limited”

Submitted by:
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Program: Bachelor of Business Administration (BBA)
Major: Finance
Department of Business Administration
Sonargaon University (SU)

Submitted to:
Department of Business Administration Faculty of Business
Sonargaon University (SU)

Submitted for the partial fulfillment of the degree of Bachelor of Business Administration (BBA)



Sonargaon University (SU)
147/1 Green Road, Panthapath, Tejgaon, Dhaka

Date of Submission: January 03, 2026

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Supervised by:

Md. Ashraf Ali

Assistant Professor

Department of Business Administration Faculty of Business,
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Submitted for the partial fulfillment of the degree of Bachelor of Business Administration (BBA)



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147/1 Green Road, Panthapath, Tejgaon, Dhaka

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LETTER OF TRANSMITTAL

Date: January 03, 2026

To
Md. Ashraf Ali
Assistant Professor
Department of Business Administration
Sonargaon University, Dhaka.

Subject: Submission of Internship Report on “Credit Risk Management of Southeast Bank Limited”

Dear Sir,

With due respect, I would like to submit my internship report entitled “**Credit Risk Management of Southeast Bank Limited**”, prepared as a partial fulfillment of the requirements for the degree of **Bachelor of Business Administration (BBA)**.

The report has been prepared based on my practical experience and relevant secondary information to gain a comprehensive understanding of credit risk management practices followed by Southeast Bank Limited. I have made my sincere effort to incorporate relevant theoretical concepts along with practical observations to ensure the quality and usefulness of this report.

I sincerely hope that this report will meet your expectations. I shall be grateful if you kindly accept this report and provide your valuable feedback.

Thank you for your guidance and cooperation throughout the preparation of this report. Yours sincerely,

Md. Mashiur Rahman

ID: BBA2201025102

BBA (Major in Finance)

Department of Business Administration

Sonargaon University

CERTIFICATE OF SUPERVISOR

This is to certify that **Md. Mashiur Rahman**, ID: **BBA2201025102**, a student of the Department of Business Administration, Sonargaon University, Dhaka, has successfully completed the internship report entitled “**Credit Risk Management of Southeast Bank Limited**” under my supervision. This report has been prepared in partial fulfillment of the requirements for the award of the degree of Bachelor of Business Administration (BBA). The work carried out by him is satisfactory and is an original piece of work. I wish him every success in his future academic and professional endeavors.

Md. Ashraf Ali
Assistant Professor
Department of Business Administration
Sonargaon University (SU)

DECLARATION OF STUDENT

I hereby declare that the internship report entitled “**Credit Risk Management of Southeast Bank Limited**” has been prepared by me as a partial fulfillment of the requirements for the degree of **Bachelor of Business Administration (BBA)** under the Department of Business Administration, Sonargaon University.

I further declare that this report is an original work and has not been submitted, either in whole or in part, to any other university or institution for any academic degree or qualification.

Sincerely,

Md. Mashiur Rahman

ID: BBA2201025102

Batch: 2022

Department of Business Administration
Sonargaon University (SU)

ACKNOWLEDGEMENT

First of all, I express my deepest gratitude to **Almighty Allah** for granting me the strength, patience, and ability to complete this internship report successfully. I would like to express my sincere appreciation to **Sonargaon University** for providing me the opportunity to complete my internship report as an essential part of the BBA program. I am profoundly grateful to my honorable supervisor **Md. Ashraf Ali, Lecturer, Department of Business Administration, Sonargaon University**, for his continuous guidance, valuable suggestions, constructive criticism, and encouragement throughout the preparation of this report. His support has played a vital role in completing this work successfully. I also extend my heartfelt thanks to the officials and employees of **Southeast Bank Limited** for their cooperation, assistance, and valuable information during my internship period. Finally, I would like to thank my classmates, friends, and family members for their encouragement and moral support throughout this academic journey.

EXECUTIVE SUMMARY

This internship report titled “**Credit Risk Management of Southeast Bank Limited**” has been prepared as a partial fulfillment of the requirements for the degree of **Bachelor of Business Administration (BBA)**. The primary objective of the report is to analyze the credit risk management system, policies, and practices followed by Southeast Bank Limited. The report is mainly based on **secondary data**, including annual reports of Southeast Bank Limited, Bangladesh Bank guidelines, relevant journals, textbooks, and online resources. Some practical insights have also been gathered through observation and discussion with bank officials during the internship period.

The study discusses the concept of credit risk, principles of credit risk management, credit appraisal procedures, risk grading systems, and preventive measures against non-performing loans (NPLs). The analysis reveals that Southeast Bank Limited follows a structured and systematic credit risk management process in line with Bangladesh Bank regulations. The bank maintains a comparatively low level of non-performing loans, indicating effective monitoring and recovery mechanisms.

However, the report also identifies certain limitations such as time constraints, restricted access to confidential data, and reliance on secondary information. Based on the findings, several recommendations have been proposed to enhance credit risk monitoring, diversification of loan portfolios, and technological advancement. Overall, the report concludes that Southeast Bank Limited has a sound credit risk management framework, but continuous improvement and strict compliance are essential to cope with the dynamic banking environment.

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Chapter 1

Introduction

1.1 Introduction

Contemporary banking organizations are exposed to a diverse set of market and non-market risks, and the management of risk has accordingly become a core function within banks. Banks have invested in risk management for the good economic reason that their shareholders and creditors demand it. But bank supervisors, such as the Bangladesh Bank, also have an obvious interest in promoting strong risk management at banking organizations because a safe and sound banking system is critical to economic growth and to the stability of financial markets. Indeed, identifying, assessing, and promoting sound risk management practices have become central elements of good supervisory practice.

1.2 Origin of the Report

This report is a part of BBA program of University of Dhaka. For completion of BBA program in Dhaka University, I shared my experience in this report regarding Southeast Bank Limited, Principal Branch, where I have been working as an intern. The report on “Credit risk management of Southeast Bank Limited”, Principal Branch, has been prepared under the supervision and guidance of Dr. Md. Main Uddin, Associate Professor, Department of Banking and Insurance, University of Dhaka.

1.3 Background of the Report

This report is made to fulfill the partial requirement of the BBA program. As I have been working in Southeast Bank Limited, Principal Branch in Dhaka as an Intern for three months, practical knowledge has been gathered on the Credit risk management department and the report is aimed to work on overall Credit risk management of Southeast Bank Ltd. Practical work situation is different from what we learnt theoretically. Though the business processes are based on theory, the application has to be different to meet the requirement of a situation. The Credit risk management of the Southeast Bank Limited, Principal Branch, has been observed practically and presented in this report.

1.4 Scope of the Report

Southeast Bank Limited is one of the leading banks in Bangladesh. The scope of the study is limited to the Branch level only. But as an intern of Southeast Bank Ltd, Principal Branch, I have observed so many important thing than any other branches. The report focuses upon the organizational structure and the Credit Risk Management of the bank.

This report covers Credit risk management of Southeast Bank Ltd. which deals with Lending, and other credit activities. This has been prepared through extensive discussion with bank employees and with the customer. While preparing this report, I had a great opportunity to have an in depth knowledge of all the banking activities practices by the “Southeast Bank Ltd”. It also helps me to acquire perspective of a leading private banking in Bangladesh.

1.5 Objectives

1.5.1 General Objectives:

The objective of the report is to bring Southeast Bank Ltd., its operation and activities into the light. It covers Overview of the Credit division, processes and other functions. It also covers Southeast bank's Products and Services, Organizational Overview, Management and Organizational functions performed by Southeast Bank Ltd.

The report also aims at acquiring firsthand knowledge about “Credit risk management of Southeast Bank Ltd.” as well to suggest ways and means to improve the current practice.

1.5.2 Specific objectives:

- The main objective of the study is to develop an insight of credit risk management of Southeast Bank Ltd. and tools available to identify efficient methods used to mitigate overall Credit risks and to reduce loan default rate. The rational objectives are: To identify the main factors of the credit risk and computation of credit risk grading of Southeast Bank Limited.

- To identify the obstacles encountered when a loan is being default by Southeast Bank Limited and the ways to overcome the problems.
- To identify the causes how and why a loan defaults.
- To apply theoretical knowledge in the practical field.
- To observe the working environment in commercial banks.
- To know the credit risk management system of Southeast Bank Ltd.
- To know about the rate and charges.
- To know about the client pattern.
- To study the risk involved during the banking operations.

1.6 Methodology

Methods followed to perform a job or conducting activities to complete a task is called Methodology. Both qualitative and quantitative methods were applied for preparing this report. The data were analyzed and presented by Microsoft excel and shows percentage, graphical presentation and different types of charts.

Sources of data:

- a) **Primary data:** Collecting data directly from the practical field is called primary sources of data. Face to face conversation with the respective officers and staffs of the branch helped me to collect information. Practical work experience also very helpful. Working in different desk of the branch helped me to collect some information that makes the report informative.
- b) **Secondary data:** The secondary data were collected to clarify different conceptual matters from internet and annual report used. Different internal and external sources are to collect information. Internal sources such as bank's annual report, group business principal manual, credit risk grading manual and business instruction manual prior research report. Besides different books and periodicals related to banking sector, Bangladesh bank report, website, newspapers are used as external sources to collect information.

Research Design:

The descriptive and analytical method is used to prepare this report. I have used credit processes and risk management procedures of Southeast Bank Ltd. as sampling unit. All the branches of Southeast Bank Ltd. have been considered as the sampling unit. Different graphical presentation and regression analysis have been used to evaluate the credit performance and risk management of this bank.

1.7 Limitations of the Report

In spite of best efforts there were limitations that acted as barriers to conduct the study. On the way of my study, I have faced the different problems which may be termed as the Limitation/short coming of the study. The main constraints of the study are insufficiency of information, which was required for the study. There are various information the bank officials cannot provide due to security and other corporate obligations. Besides all the employees of the bank are very busy. So they do not have much time to share information and properly discuss about topics related to my report.

As I am an internee of Southeast Bank Ltd (Principal Branch), I have limited access to data collection from its data base. Due to the limitations of time and to protect the organizational confidentiality many aspects of the report are not in depth. Being public limited company, the private commercial banks like Southeast Bank Limited keep some information restricted like the actual amount of classified loans. Financial Statements only portray the figures/numbers and their break down but do not clarify the justification in most of the time. All customers are not proactive or knowledgeable to share information.

Chapter 2

Literature Review

Literature Review

The literature review helps researcher to remove limitations of existing work or may assist to extend prevailing study. According to Bangladesh Bank guidelines, all Banks should adopt a credit risk grading system. Therefore, Southeast Bank Ltd. has duly implemented a credit risk grading policy in its credit risk assessment program.

Brown (2008) said in his book named “Credit Risk Management” that Credit risk refers to the probability of loss due to the failure of borrower to make payments of debt. Credit risk management is the practice of reduction of those losses by understanding the adequacy of both a bank’s capital and loan at any given time.

Credit risk has a number of sub-issues including concentration risk and settlement risk. Concentration risk arises when there is a large number of exposures to parties which share similar characteristics. Settlement risk arises when a clearing agent or third party processes transactions for other parties (Peter Moles, 2011).

Schuermann, Treutler and Weiner (2006) develops a framework that links the value changes of a credit portfolio to a dynamic global macro-econometric model and concludes that the relationship between the firms and the business cycle is the main driver of default probabilities. Altman et. al. (2003) showed in “The Link between Default and Recovery Rates” empirical evidence of a bank’s performance with credit rating, capital requirements, credit risk, recovery rate, default etc.

The performance of the bank mainly depend on the success of the deposit utilization or mobilization. Richard L. Meyer et. al. (2001) found in their article that suggests a strategy for deposit mobilization in Bangladesh based on their research and some recently completed studies on deposit mobilization and rural finance in Bangladesh. Authors suggest that to improve the brunching policy to reduce the transaction cost of depositor, he also suggests on Changing in the composition of total rural deposits and faster growth rates for higher interest deposits' responsiveness to interest rates.

It is important for a bank to provide loan services after investing the repayment probability of the loan. Rahman (1999) said about the necessity of investigation because if the borrower's character is not identified then the loan may be classified loan. He emphasized on the monitoring of the loan repayment. Treacy and Carey (1998) found in a study that in us the provision for doubtful loan is 50%. He also said that the regulation rules for state owned bank will vary with the other commercial banks because of public interest.

Fremier and Gordon (1965) said in an article that banks must assess the credit risk during the disbursement of a loan by using different data and analytical tools. He also saw that the group performance is better to bypass moral hazard. Early analysis by Walker (1978) found large scale economies associated with increases in loan transaction volume.

Non-performing loans provision is a mechanism over expected losses of non-performing loans. Practically appliance showed that the high ratio of non-performing loans requires the larger amounts of efficient provision (Hasan and Wall, 2004). Salas and Saurina (2002) analyze problem loans of the Spanish commercial and savings banks and find that credit risk is determined by microeconomic individual bank level variables, such as bank size net interest margin, capital ratio and market power, in addition to real GDP growth.

SWOT Analysis is a useful technique for understanding your Strengths and Weaknesses, and for identifying both the Opportunities open to you and the Threats you face; said in a personal interview of (Manktelow and Carlson, 1997). Valentin (2001) said that the SWOT analysis is the conventional approach of searching for insights into ways of realizing the desired alignment. The SWOT analysis is a valuable tool in the field of business strategy because it invites decision makers to consider important aspects of their organization's environment and helps them organize their thoughts

Chapter 3

Organization's Overview

3.1 Bank Profile

Southeast Bank Limited, “A Bank with Vision”, emerged in the Commercial Banking Industry of Bangladesh in 1995. It was incorporated on March 12, 1995 as a public limited organization according to the Companies Act 1994. The commencement of its banking operations occurred on May 25, 1995 by the Principal Branch located at 1, Dilkusha Commercial Area, Dhaka.

From May 25, 1995 due to its efficient client service and schemes the bank has been deeply appreciated by the business consumers ranging from small investors to the giant entrepreneurs and industrial conglomerates. In addition to that, its policy inspires and allows the top-rated corporate customers for having progressive and innovative business perspectives by providing credit facilities. Thus within this 17 years of its operation it achieved a remarkable success maintaining capital adequacy requirement of Bangladesh Bank. Gradually it has been able to create an image and earn significant reputation in the country's banking sector as a Bank with Vision.

Through different activities Bank intends to raise income per share for the shareholders. Southeast Bank Limited assures customer satisfaction through services and has developed a relationship of reliability with customers, which has stood the test of time for the last seventeen years.

3.2 Vision of Southeast Bank Limited

The development of a company lies on its mission, which is directly reflected through its vision and the vision statement should be established first and foremost. Southeast Bank has substantiated their vision statement through the success of their long-term goals. Its managers and executives agree and work as one to make the bank as a pioneer banking institution in Bangladesh.

Mission of Southeast Bank Limited:

A business mission incorporates priorities, policies, and performance plans. Southeast Bank is extremely concerned about their mission because divergent views among managers can only be revealed and resolved through the mission statement.

The mission of the bank is stated below:

- High quality financial services with the help of latest technology.
- Fast and accurate customer service.
- Balanced growth strategy.
- High standard business ethics.
- Steady return on shareholders' equity.
- Innovative banking at a competitive price.
- Commitment to the society and the growth of national economy.
- Attract and retain quality human resource.
- Commitment to Corporate Social Responsibility

3.3 Core Strengths

Core Strength is basically the power that takes a bank to the zenith of eminence. Southeast bank has achieved this success through the following strengths:

- Transparent and Quick Decision Making
- Satisfied Customers
- Skilled Risk Management
- Efficient Team of Performers
- Internal Control and Compliance
- Diversification

3.4 Operating Strategy

Presently the bank uses Bank Ultimus branch banking software developed by leads C Corporation developed on SQL on windows platform. Purposes of this software are managing book keeping, automatic interest calculation, daily transaction listing and audit trails, auto maturity and auto renewal of FDRs, automatic integration of customer's ledger position including balance of subsidiaries, monthly income and expenditure position etc. The bank has involved itself with the shared ATM Network Bangladesh offered by ETN along with eight other member banks. This service is presently available in Dhaka, Chittagong and Sylhet. Southeast Bank Ltd. is member of SWIFT. It has also installed Reuter System at the Head Office to have live access to information from international money market for dealing in Foreign Exchange. But from the viewpoint of ideal requirement for modern bank, competing with international banks, the IT facilities of SBL need further improvement.

Chapter 4

Credit Risk Management

Of

Southeast Bank Ltd.

4.1 Credit risk Management:

Credit risk is a key element in a bank's performance. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances. Such as:

- A consumer may fail to make a payment due on a mortgage loan, credit card, line of credit, or other loan
- A company is unable to repay asset-secured fixed or floating charge debt etc.

Good credit risk decisions will help a bank operate profitably. An effective credit risk management process requires a good credit policy, clear underwriting guidelines, a loan review process, and the ability to measure risk. The goal of credit risk management is to maximize a bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Bank should consider the relationship between credit risk and other risk. Assessing credit risk a financial institution must consider three issues:

- Default Probability
- Credit Exposure
- Recovery Rate

4.2 Principles of credit risk management

The management of credit risk is essential to a sound credit management process, the basic Principles a bank has to follow in its credit risk management are:

- Background, Character and ability of the borrowers
- Purpose of the facility
- Safety and security
- Profitability
- Source of repayment
- Diversity of loan portfolio

4.3 Tools used in credit risk management:

The quality of the credit portfolio of banks depends on the quality of its borrower. To judge the quality of a borrower the bank takes into consideration the following **6c**:

1. **Character:** It refers to the willingness of the customers to pay.
2. **Capacity:** The customer's ability to meet credit obligations.
3. **Capital:** The customer's financial reserves
4. **Collateral:** Adequate net worth to support for the loan
5. **Conditions (economic):** Recent trends in borrower line of credit
6. **Compliance:** (law and regulations)

4.4 Protective measures against credit risk

- Corporate Governance
- Better credit information to cut down on non-performing loan
- Prudential Supervision
- Efficient, capable management
- Well-developed capital markets that can offer the mechanism and liquidity required to write off bad loans

4.5 Some common mistakes in lending

The following mistakes are often done by the lenders:

- Inadequate cash flow analyses that do not consistently validate a borrower's ability to repay debt.
- Poorly specified risk ratings that do not accurately reflect the financial condition of, or the risks of borrowers.
- Loan pricing that is not equable with risk.

These mistakes should be avoided to reduce the credit risk and improve the credit risk management process.

4.6 Credit process and risk management of Southeast Bank Limited:

Contemporary banking organizations are exposed to a diverse set of market and non-market process and the management of risk has accordingly become a core function within banks. Banks invests in credit risk management for some good economic reason that their shareholders and creditors demand it. Bank supervisors, such as the Bangladesh Bank, also have an obvious interest in promoting strong risk management at banking organizations because a safe and sound banking system is very important to economic growth and to the stability of financial markets condition. At present economic environment, identifying, assessing, and promoting sound credit risk management practices have become the main elements of good supervisory practice.

4.6.1 Functions of credit department:

The followings are the functions of credit department:

- 1) Interviewing the prospective borrower.
- 2) Receiving the credit information assembled and placed in the customer's credit file.
- 3) Processing and sanctioning of credit facilities to the customer.
- 4) Disbursement of credit facilities to borrowers in accordance with established procedures.
- 5) Recording of credit facilities.
- 6) Preparing vouchers pertaining to credit facilities disbursed and recording of relevant entries.
- 7) Controlling of securities and proper custody of documents.

4.7 Process of handling loans

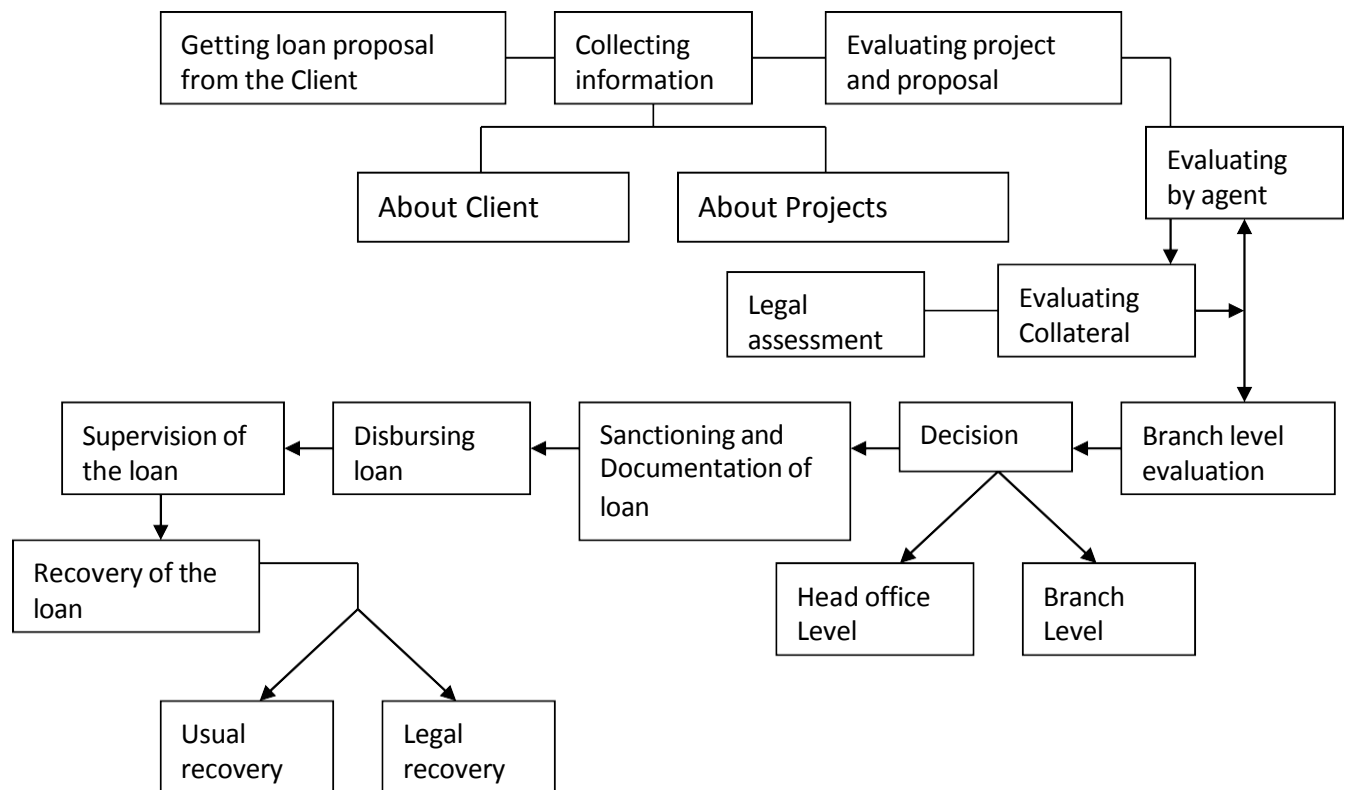


Figure 1: Process of handling loans

4.7.1 Documentation for Credit

Before sending proposal to the approving authority, the branch ensures that the following documents have been completed properly:

- Current CIB report
- Audited financial report
- Forecasted Financial statement
- CRG score sheet of the business
- Bank statement regarding the bank transaction of the borrower.
- Net worth of the business
- Net worth of the individual

- Total debit and credit of the business
- Trade license of the business

After getting the approval of Bangladesh Bank it will again come to the Head office where after the sanction advice, the Bank will collect the necessary charging documents. The documents that are collected are given below:

- Letter of guarantee
- Letter of authority
- Letter of recall the loan
- Letter of continuity
- Letter of revival
- Letter of undertaking

4.8 Credit risk evaluation

A proper appraisal of credit risk management is highly subjective matter including qualitative and quantitative judgments. The financial statements of the borrower do not always provide a complete picture. Bank must use all financial data available and combine this with qualitative factors in analyzing the borrower's financial position. In evaluating any credit proposal, the analyst must follow three distinct steps to make appropriate recommendations. These are:

Step 1: Historical analysis:

Historical analysis means identifying the nature of risk. In this step the analyst must evaluate the past performance of the borrower. They determine the major risk factors and evaluate how they have been mitigate this risk factors in the past. Identifying factors of the borrower's present condition and past performances may indicate likelihood of success in his ability to repay the loan at a future time.

Step 2: Forecast:

Here forecast means Judging future degree of risk. After identifying the nature of risk involved and how these can be mitigated, the analyst make a reasonable forecast of the probable future condition of the borrower and conclude on his ability to service the proposed debt.

Step 3: Debt structure and protection:

At this step the main task of an analyst is to assess the borrower's credit worthiness and prepare a proposal for structuring a credit facility that can be repaid or amortized. The analyst must have to be careful about that the borrower's assets or his projected Cash flow and the facility offering adequate protection against loss.

4.9 Modes of securities offered by Southeast Bank Ltd.

- Pledge
- Hypothecation
- Lien
- Mortgage

4.10 Credit risk grading of Southeast Bank Ltd.

According to Bangladesh Bank guidelines, all Banks should adopt a credit risk grading system. Therefore, Southeast Bank Ltd. has duly implemented a credit risk grading policy in its credit risk assessment program. The system defines the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved.

Risk grading is a key measurement of a Bank's asset quality. All facilities are assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities are immediately changed. Credit Memorandum includes a clear statement of the borrower's risk grade.

The following is the proposed Credit Risk Grade matrix based on the total score obtained by an obligor.

Number	Risk Grading	Short Name	Score
1	Superior	SUP	<ul style="list-style-type: none"> • 100% cash covered • Government guarantee • International Bank guarantees
2	Good	GD	85+
3	Acceptable	ACCPT	75-84
4	Marginal/Watch list	MG/WL	65-74
5	Special Mention	SM	55-64
6	Sub-standard	SS	45-54
7	Doubtful	DF	35-44
8	Bad and Loss	BL	<35

Table 1: Risk Grading of Southeast Bank Ltd.

CREDIT RATING BY CRISL

Southeast Bank Limited has been rated by Credit Rating Information and Services Limited (CRISL). The ratings assigned by them to the Bank are given below:

Date of Rating	Particulars	Long Term	Short Term	Outlook	Remarks
June 23,2014	Rating for the year 2013	AA-	ST-2	Stable	Based on the audited Financial statements as on December 31, 2013
June 30,2013	Rating for the year 2014	AA-	ST-2	Stable	Based on the audited Financial statements as on December 31, 2012

Figure 2: Credit rating by CRISL Source: Southeast Bank web site

CRISL has reaffirmed **AA-** (pronounced as a Double A minus) rating for long term and **ST-2** rating for short term to Southeast Bank Limited. The above ratings have been arrived at on the basis of strong fundamentals of the Bank in the areas of capital base, operating efficiency, corporate management, ownership pattern, diversification in product line, franchise value, improvement in non- funded exposure and soundness of Management Information System.

Rating AA- : High Safety. Banks rated in this category are adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions.

Rating ST-2: High Grade. High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.

The above rating for the long term is valid for one year from the date of rating.

4.11 Non-performing loan (NPL):

which the borrower is not making interest payments or repaying any principal. At what point the loan is classified as non-performing by the bank, and when it becomes bad debt, depends on local regulations.

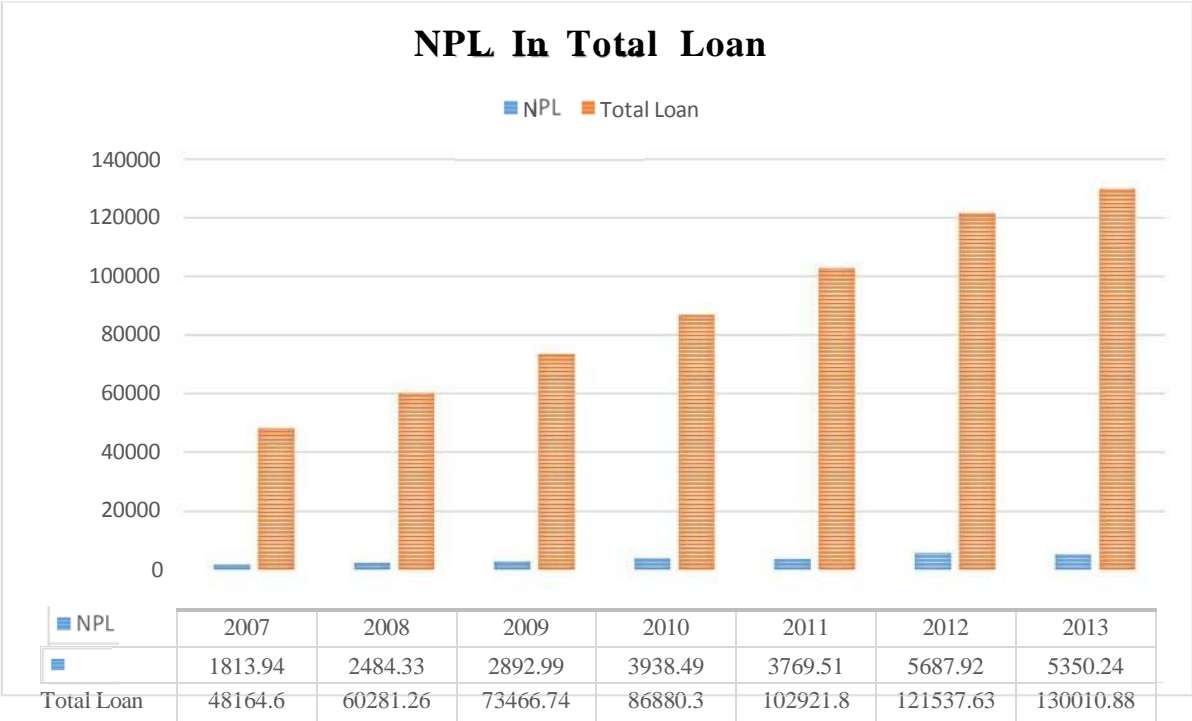


Figure 3: Total NPL amount in Total Loans and advances of Southeast Bank Ltd.

Southeast Bank maintain very low percentage of non-performing loan in its total loans and advances. The graph shown in above gives us a snap shot of NPL situation of Southeast Bank Ltd. Around 2%- 4% of total loans have been appear as non-performing loan.

4.11.1 Preventive steps against NPL of Southeast Bank Ltd.:

Southeast Bank Ltd. recently adopting various measures to manage NPL under preventive strategy. Such measures include:

- The lack of genuine information is the main barrier to preventing and controlling the NPL. So truthfulness is the best policy for managing NPL. Southeast Bank Ltd. is following this policy in most of their lending activities.
- This bank maintains borrower counseling as a strong NPL management process.
- The Relationship Managers aware about the borrower's Non-Payment Behavior (NPB).
- Southeast Bank routinely perform in-site inspection before and after sanctioning any credit. It emphasize on Credit Information Bureau (CIB) report to perform any credit activities.
- Day by day Southeast Bank Ltd. improving its credit management efficiency by through meritorious requirements, training and various workshop program.
- Southeast Bank Ltd. discourages in following industries to provide lending:
 - Military Equipment/Weapons Finance
 - Highly Leveraged Transactions
 - Finance of Speculative Investments
 - Logging, Mineral Extraction/Mining, or other activity that is ethically or environmentally sensitive
 - Lending to companies listed on CIB black list or known defaulters
 - Counterparties in countries subject to UN sanctions
 - Share Lending
- The Credit Risk Management (CRM), Credit Administration Department (CAD) and Audit Department operate their functions properly and with autonomy.
- Southeast Bank Ltd. have some charging document which reduces the probability of being default a loan. Besides it has the lending guidelines that follows the rules provided by Bangladesh Bank.

Chapter 5

Findings and Analysis

Findings

As an international private bank, Southeast Bank Ltd. must ensure faster services by removing the problems. From my study on the Credit Management activities of Southeast Bank Ltd. I have got some major findings, which are given below:

- Bangladesh bank credit management policies requires bank to set lending guideline which Southeast Bank Ltd. does and reviews on annual basis.
- Southeast Bank Ltd.'s detailed product definition shows that each product falls under Bangladesh bank broad classification of loan product.
- Southeast Bank Ltd. follows the BB guideline regarding discouraged lending activities.
- Both interest rate on deposit and loan are lower compared to other strong participants of the market.
- Southeast Bank Ltd. offers different short term FDR at a high interest which makes the bank to attract client to transaction in this bank
- Modern banking service like online Banking, wide range of ATM service, and one stop banking service are available. Southeast bank use Ultimux software for operating banking activities. But this software is not enough efficient because it often hanged. Therefore it delays to performing banking activities at time.
- Southeast bank's most loans and advances is centralized in Dhaka and Chittagong region. It has very low focus on rural area which is not balanced for an economy. It loan and advances in other region of the country is not well disbursed. So it can be said this bank gives its focus of its operation in the big cities.
- This bank maintain very low percentage of Non-performing long of total amount of loan and advances which is showed in financial analysis part of this report.
- Loan portfolio of Southeast Bank Ltd. can be well-structured. It can diversify its loans and advances in more area which is not properly emphasized now.
- This is important to say Southeast Bank Ltd. follow strict rules for disbursing any credit. It follows proper documentation process and it often perform in-site inspection. Bank Guarantee (BG), Trust Receipt (TR) are very important service of this bank.

- As an Internee a found Southeast Bank Ltd. gives very high priority for all of its clients. Customer satisfaction is one of the main target for Southeast Bank Ltd.
- One more thing is this bank recently introduce ladies brunches which is specially established woman's banking transaction. This is a very new concept for our banking industry. So Southeast Bank Ltd. is one step ahead in this fact.
- Southeast bank strictly maintain audit function. Three types of audit functions performs here; Internal Audit, External Audit and Bangladesh Bank's Audit. These auditors properly inspect the operations of southeast bank.
- We can in the analysis part, the provision kept by Southeast Bank Ltd. for non-performing loan is increasing year to year as the non-performing loan is increasing. This are increasing opportunity cost for this bank.
- We can also see in chapter four of this report that the total classified loan or non-performing loan is only about 3%-4% of total loan amount which indicates this bank is very careful in providing their loans and advances. It is also considerable that the trend of non-performing loan is upward.

5.1 Trend Analysis of Non-performing Loan

(In Million)

Year	2007	2008	2009	2010	2011	2012	2013
Non-performing loan	1813.94	2484.33	2892.99	3938.49	3769.51	5687.92	5350.24

Table 2: Non-performing loans of Southeast Bank Ltd.

From the annual report of different financial year of Southeast bank it is found that the NPL amount of this bank is not gradually increasing year after year. But it is increasing. Although the total amount of NPL is increasing this amount is not so alarming for this bank like other public commercial bank. Southeast ltd. put highest efficiency to decrease this amount.

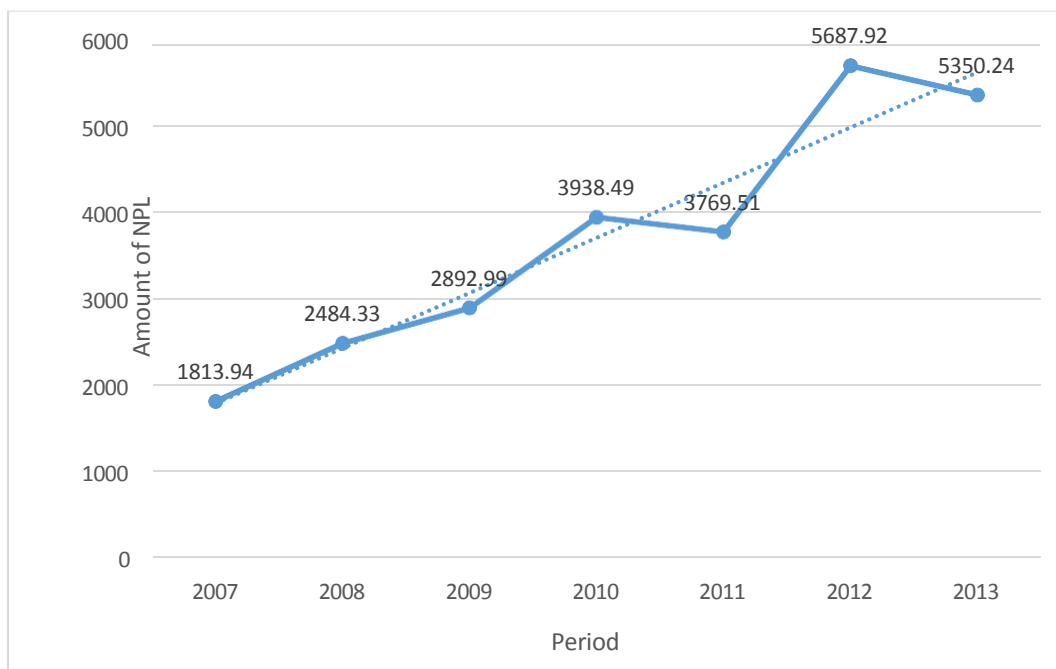


Figure 4: Trend analysis of Non-performing loan of Southeast Bank Ltd.

5.1.1 Category of NPL of Southeast Bank Ltd

From the above table I have shown the category wise NPL or classified loan to in a graph presented below. Here we see that among the three types of classified loan the increasing trend of bad loan is higher than the others. From 2007 to 2013, in 2012 Southeast Bank ltd. faces the highest percentage of 4.47 % of non-performing loan in its total loan portfolio.

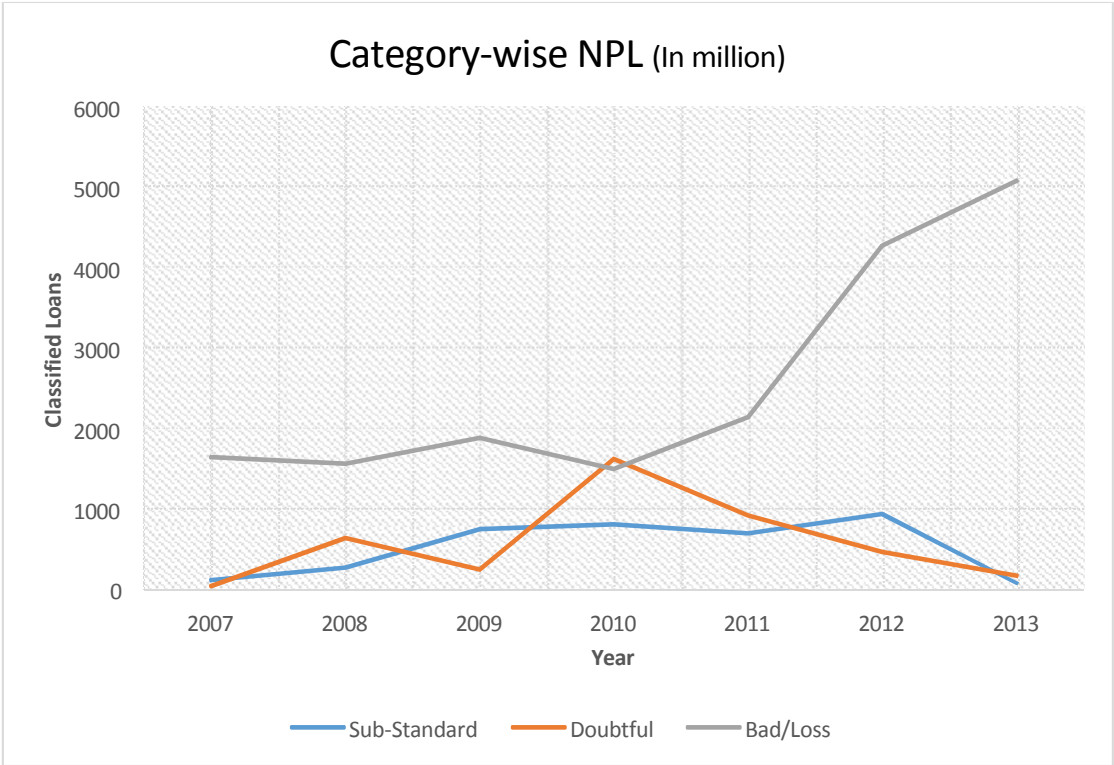


Figure 5: Category of NPL of Southeast Bank Ltd.

5.1.2 Provision for Non-performing loan held by Southeast Bank Ltd.:

The graph given below shows the provision held by Southeast Bank Ltd. for non-performing loan from the year 2007 to year 2013. We can see that non-performing loan provision of Southeast Bank Ltd. has an increasing trend with the non-performing loan (NPL). So it easily said that increasing of non-performing loan also increasing the provision for it which lowers the net profit after provision. After 2013 Southeast Bank Ltd. keeps their highest amount of non-performing loan provision is 2597.97 million. I have added a linear trend line to easily understand the increasing trend of provision for non-performing loan.

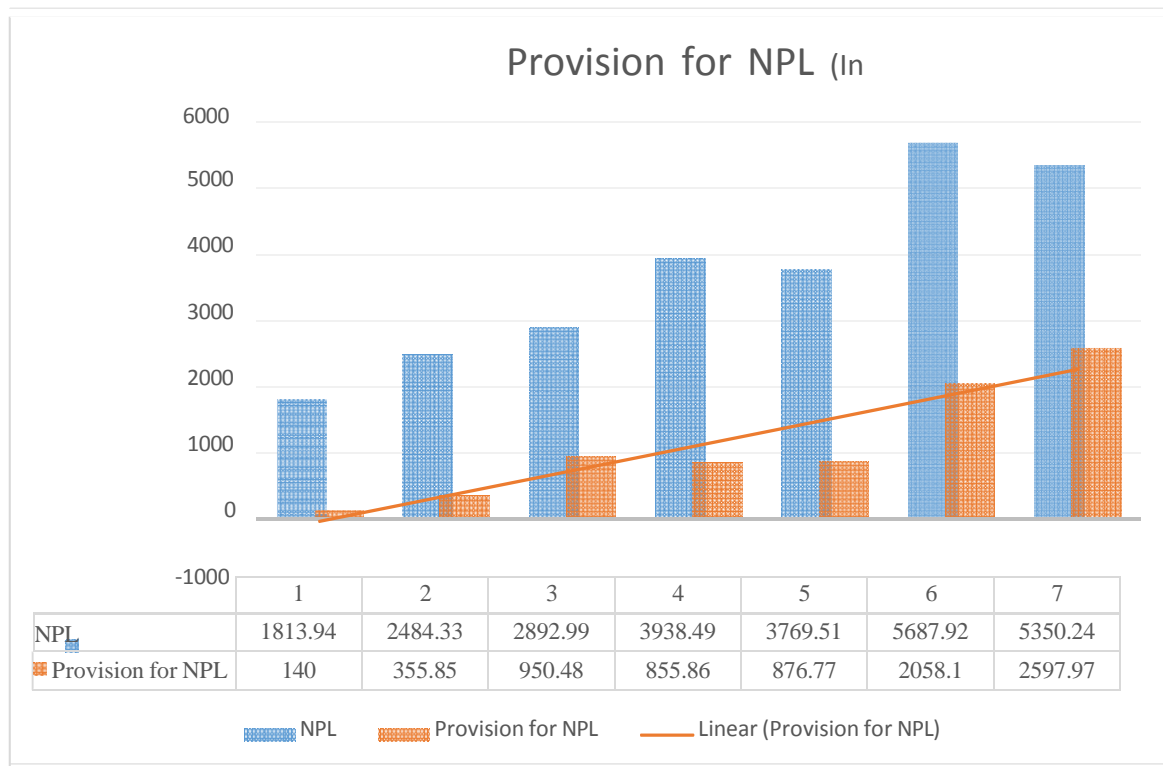


Figure 6: Provision for NPL Southeast Bank Ltd.

5.2 Provision for loans and advances

Bank Ltd. from the table below:

Status	% of required Provision
Unclassified - General provision	
Special mention account (SMA)	1%
Small and medium enterprise financing (SME)	0.25%
Housing and loan for professional	2%
Consumer finance	5%
Agriculture finance	5%
Special Mention Account (SMA)	0.25%-5%
Classified - Specific provision	
Sub-standard	20%
Doubtful	50%
Bad/loss	100%

Table 3: Provision for loans and advances

5.3 Sector-wise loans and advances

financing .I think Southeast Bank Ltd. should emphasize on agriculture and Cottage industry. Because Southeast Bank Ltd. provides only 1.14% credit of its sector wise loan portfolio in these two sector.

<i>Sector-wise Loans and Advances</i>	<i>% of Total Loan</i>
<i>Agriculture</i>	0.69%
<i>Industry Working capital financing</i>	21.59%
<i>Export credit Commercial credit</i>	23.51%
<i>Small and cottage industries</i>	4.11%
<i>Others</i>	31.49%
	0.45%
	18.16%

Table 4: Sector-Wise of loans and advances

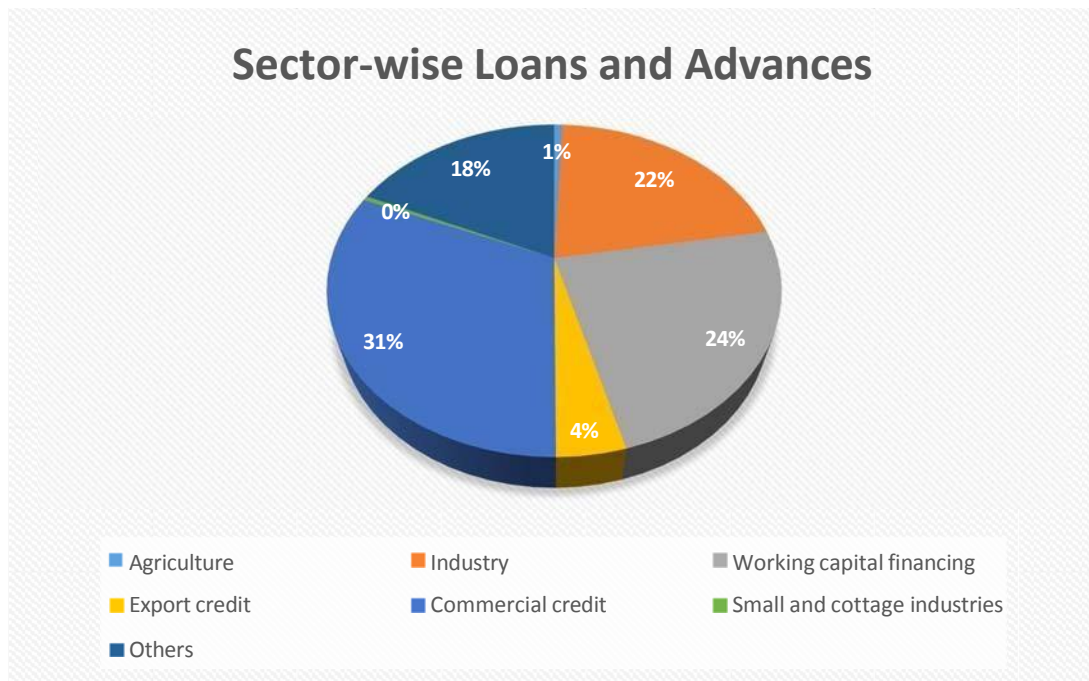


Figure 7: Sector-Wise loans and advances

5.4 Geographical location-wise loans and advances

Southeast bank ltd.'s almost 95% loan is centralized into Dhaka (69.61%) and Chittagong (25.54%) division of its total geographical wise loan portfolio. But it performs very low insignificant investment or credit activities in another region and rural areas of the country. For the total balance and proper diversification Southeast Bank Ltd. should offer more credit services in different rural and other deprive areas.

<i>Geographical location-wise</i>	<i>% of Loans and Advances</i>
<i>Dhaka region</i>	69.61%
<i>Chittagong region</i>	25.54%
<i>Rajshahi region</i>	1.51%
<i>Sylhet region</i>	2.28%
<i>Khulna region</i>	0.62%
<i>Rampur region</i>	0.39%
<i>Barisal region</i>	0.06%

Table 5: Geographical Location-Wise loan Portfolio

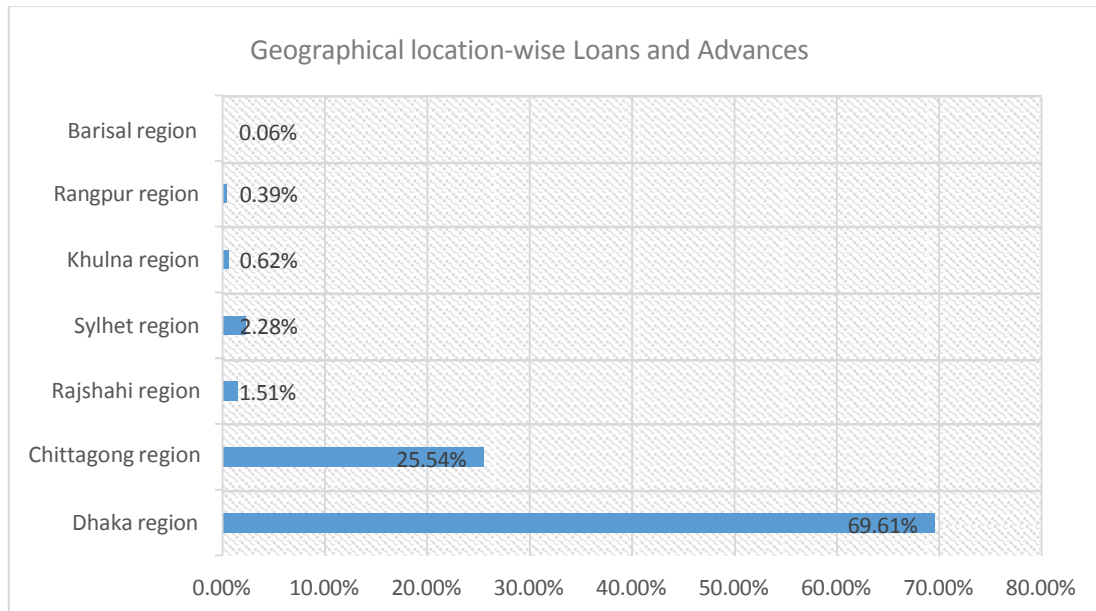


Figure 8: Geographical Location-Wise loans and advances

5.5 Industry-wise loans and advances

sector gets highest focus by Southeast Bank Ltd. in its industry wise loan portfolio.

<i>Industries Advances</i>	<i>Industry-wise Loans and</i>
Textile and Garments Industries Food and allied Industries	49.32%
Pharmaceutical Industries	6.54%
Chemical, Fertilizer, etc.	1.62%
Cement and Ceramic Industries	0.34%
Service Industries	4.87%
Other Industries	2.71%
	34.59%

Table 6: Industry-Wise loan Portfolio

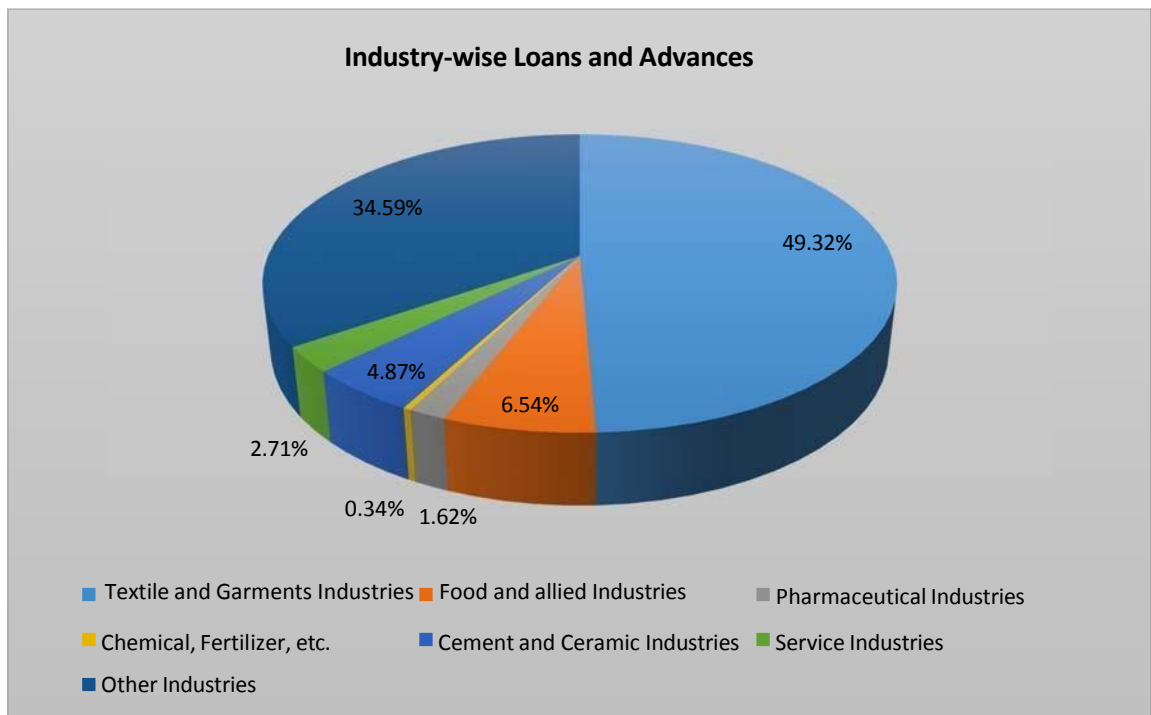


Figure 9: Industry-Wise loans and advances

5.6 Multiple Regression Analysis

Independent variable. To measure the impact of deposits, NPL, interest rate on loan over it loan and advances, I have decided to run regression analysis. For this purpose I will conduct multiple linear regression analysis.

I will derive one regression equations where I will show the relationship between NPL, total loan, net interest income and net profit after tax. Before going to analyze mathematical data, it is very crucial to have a clear concept about regression analysis. I will try to find out following parameters:

Constant (α): The alpha or constant parameter measures the extent to which change in dependent will occur regardless with the change in independent variable.

Slope (β): Slope measures the degree to which change in dependent variable will occur for the change occurred in independent variable.

Net Profit after Tax-Total loan, Net Interest income, NPL Regression: Regression Equation:

$$Y_{\text{(Net interest income)}} = \alpha + b_1X_1 + b_2X_2 + b_3X_3$$

$$= (-414.606) + (-.465) \times \text{NPL} - 0.034 \times \text{Total loan} + 0.565 \times \text{Net interest income}$$

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.887	.786	.679	561.96893	.786	7.359	3

Table 7: Model summary of Southeast Bank Ltd.

5.6.1 Coefficients of Correlation (R):

Coefficients of correlation (R) determine the degree of relationship between independent variable and dependent variable. In fact, it measures the direction of relationship relying between independent variables and dependent variables. Broadly it explains the direction of change occurred in dependent variables due to the change of independent variables.

We can notice that Correlation Coefficient for Southeast Bank Ltd. is 0.887 or 88.7%. That means dependent variable Net profit after tax is being changed 88.7 unit due to 100 unit change of independent variable NPL, total loan and net interest income. Statistically this relationship is called strong positive relationship which means dependent and independent variables move in the same direction.

5.7.2 Coefficient of Determination (R²):

Coefficient of determination measures the ability of independent variable to explain the variability of dependent variable. Higher the magnitude of R², the greater the indication of the validity of dependent variable prevails. It is a very important tool used in regression analysis because it gives the proportion of the variance (fluctuations) of dependent variable that can be predicted by independent variables. Here the R² for Southeast Bank Ltd. is 0.786 that shows the ability of independent variables of explaining the variability of net profit after tax.

5.7.3 Standard Error of Estimate:

It shows how much error or variability stands between the predicted result and actual observed result. Here the value is 561.96893 that show the amount of variability of our predicted result and the actual result acquired from the real observation.

5.7.4 Analysis of Variance (ANOVA):

Total sum of squares is divided into two parts; Sum of Squared due to Regression (SSR) and Sum of Squared due to Error (SSE). Addition of SSR and SSE compose SST. So:

$$\text{SST} = \text{SSR} + \text{SSE}$$

Here,

$$\text{SST (Total Sum of Squares)} = \sum (Y_i - \bar{Y})^2$$

$$\text{SSR (Sum of Square due to Regression)} = \sum (\hat{Y} - \bar{Y})$$

$$\text{SSE (Sum of Square due to Error)} = \sum (Y_i - \hat{Y})$$

Analysis of Variance (ANOVA)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	6972110.816	3	2324036.939	7.359	.020
Residual	1894854.486	6	315809.081		
Total	8866965.302	9			

Table 8: Analysis of Variance (ANOVA)

Mean square is an important component for the analysis of variance. It measures the average variation occurred by independent variable and also by the error. From the table we can see that SSR and MSR for both of the bank is greater than SSE and MSE. It indicates that the estimated regression equation provides a better fit for the observed data. If SSE or MSE exceed SSR or MSR we could not draw such a conclusion.

5.7 SWOT analysis

environment, which in turn would help the organization to navigate in the turbulent ocean of competition.

SWOT analysis



Figure 10: SWOT Analysis of Southeast Bank Ltd.

Strengths:

Company reputation: Since Southeast Bank Ltd. is a Private commercial bank. Southeast Bank Ltd. has already established a favorable reputation in the banking industry of the country particularly among the new comers. Reputation is the most important strength for any types of business.

Facilities and equipment: The bank has computerized banking operations under the software. Computerized statements for the customers as well as for the internal use of the banks are also available. All the branches of Southeast Bank Ltd. are equipped with telex, SWIFT and fax facilities.

This bank has own and sharing ATM facility.

Invest Opportunity: Southeast Bank Ltd. has already operate Islamic banking function through Islamic banking branches. Besides there are many sectors where this can give special privileges. Recently Southeast Bank Ltd. introduces Ladies branch for women to provide special privileges.

Globalize the business: Southeast Bank Ltd. invest in export and import business. It provides Bank Guarantee, Trust receipt in export-import in multination business as well as domestic areas.

Well organized: Southeast Bank Ltd. is a well-organized bank. It follows all national and international rules and regulations in their activities. Their management is very strict to maintain their systems and proper service.

Weakness:

Shortage of manpower: Shortage of Manpower in every Division. During the Working Hours of the Bank, the Employees have to be fatigued and cannot provide proper attention that type of Services and they have to work very long time after finished the banking hour, which create dissatisfaction of the employee.

Higher service charge: Higher Service Charge in some areas of Banking Operations discourages the Customers for opening and maintaining Accounts with Southeast Bank Ltd.

Opportunities:

Diversification: Southeast Bank Ltd. can operate a diversification strategy in expanding its current line of business. This bank can diversify its business in leasing and insurance. By expanding their business portfolio, Southeast Bank Ltd. can reduce their business risk.

ATM: There are enough ATM booths of Southeast Bank Ltd. but it should increase more ATMs.

Product line proliferation: In this competitive environment Southeast Bank Ltd. must expand its product line to enhance its Sustainable Competitive Advantage.

Threats:

Contemporary Banks: The contemporary banks of Southeast Bank Ltd. such as Prime Bank, Brac Bank, Dutch Bangla Bank, City Bank, Standard bank, Bank Asia etc. are its major rivals. Southeast Bank Ltd. and are carrying out aggressive campaign to attract lucrative corporate clients as well as long time depositors.

The Central Bank's strict supervision: The Central Bank exercise strict control over all banking activities in local banks like Southeast Bank Limited. Sometimes the restrictions impose barrier in the Normal Operations and Policies of the Bank.

Conclusion

Credit risk management is becoming more and more important in today's competitive business world. It is all the more important in the context of Bangladesh. The tools for improving management of credit risk have advanced in recent years. Therefore, as a responsible and reputed commercial bank, Southeast Bank Ltd. has instituted a contemporary credit risk management system. From the study, it is evident that the bank is quite sincere in their approach to managing the consumer credit risk though there are rooms for improvement. They have to be more cautious in the recovery sector and preferential treatments to some big clients should also be stopped. However, they follow an in-depth procedure in assessing the credit risk by using the credit risk grading techniques which provides them a solid ground in the time of any settlement.

From the discussion in this report, it has become clear that credit risk management is a complex and ongoing process and therefore financial institutions must take a serious approach in addressing these issues. They have to be up to date in complying with all the required procedures and must employ competent people who have the ability to deal with these complex matters. Utmost importance should be given to the improvement of the networking system which is essential for modern banking environment and obviously for efficient and effective credit risk management process. Southeast Bank Ltd. is well prepared to and capable of meeting the demand for a broad range of banking services. It has got adequate resources, both human and physical, to provide the customers with the best possible services. Southeast Bank Ltd. has already developed goodwill among its client by offering its excellent services. This success has resulted from the dedication, commitment and dynamic leadership of its management over the periods. But they must concentrate more on customer oriented services and provide better technological advancement relating to banking activities. Besides management must concentrate on reducing the classified loan and should expend this bank's services in different areas and regions of the country.

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Annexure

NPL Category:**Taka in Million**

Category	2007	2008	2009	2010	2011	2012	2013
Substandard	120.30	940.69	700.65	811.79	751.55	275.20	89.4
Doubtful	45.58	643.48	251.99	1625.92	923.81	469.11	175.90
Bad/Loss	1648.06	1565.65	1889.45	1500.77	2145.04	4278.11	5084.93
Sub Total	1813.94	3149.82	2842.09	3938.48	3820.4	5022.42	5350.23
Total Loans & Advances	48164.60	60281.26	73466.74	86880.30	102921.80	121537.63	130010.88
Total NPL	1813.94	1813.94	1813.94	1813.94	1813.94	1813.94	1813.94
Provision for NPL	140	355.85	950.48	855.86	876.77	2058.1	2597.97
Net Classified loan as % of total loans	3.77%	4.12%	3.73%	4.26%	3.51%	4.47%	3.94%

Last 7 years Financial Highlights

Performance of Southeast Bank Ltd. at a glance: Taka in Million

Category	2009	2010	2011	2012	2013
Working Capital	471	502	584	710	893
Retained Earnings	1278.87	1778.64	2074.81	1354.81	2159.17
Earnings before Interest & Tax	11295	12504.09	16128.54	18886.64	23282.57
Equity	11329.18	17145.28	19383.91	19803.21189	21916.04
Net interest income	1118.86	2676.19	2090.78	2066.38	1978.74
Total Assets	112676.98	131943.48	157952.81	190811.57	220578.18
Total Liabilities	101347.81	114798.20	138568.90	171484.42	198991.22

Last 5 years Financial Highlights

Multiple Regression of net profit after tax and NPL, total loan, net interest income

Descriptive Statistics

	Mean	Std. Deviation	N
Net_profit_after_tax	1526.9280	992.58167	10
Non_performing_loan	3008.2860	1629.89129	10
Total_Loan	71896.3280	37582.88007	10
Net_interest_income	1539.4650	658.42042	10

Correlations

		Net_profit_after_t ax	Non_performing_l loan	Total_Loan	Net_interest_inco me
Pearson Correlation	Net_profit_after_tax	1.000	.809	.848	.803
	Non_performing_loan	.809	1.000	.982	.786
	Total_Loan	.848	.982	1.000	.790
	Net_interest_income	.803	.786	.790	1.000
Sig. (1-tailed)	Net_profit_after_tax	.	.002	.001	.003
	Non_performing_loan	.002	.	.000	.003
	Total_Loan	.001	.000	.	.003
	Net_interest_income	.003	.003	.003	.
N	Net_profit_after_tax	10	10	10	10
	Non_performing_loan	10	10	10	10
	Total_Loan	10	10	10	10
	Net_interest_income	10	10	10	10

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	Net_interest_income, Non_performing_loan, Total_Loan ^a		Enter

a. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.887 ^a	.786	.679	561.96893	.786	7.359	3	6	.020

a. Predictors: (Constant), Net_interest_income, Non_performing_loan, Total_Loan

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6972110.816	3	2324036.939	7.359	.020 ^a
	Residual	1894854.486	6	315809.081		
	Total	8866965.302	9			

a. Predictors: (Constant), Net_interest_income, Non_performing_loan, Total_Loan

b. Dependent Variable: Net_profit_after_tax

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-414.606	476.277		-.871	.417	-1580.015	750.802
	Non_performing_loan	-.465	.608	-.763	-.764	.474	-1.953	1.024
	Total_Loan	.034	.027	1.301	1.291	.244	-.031	.099
	Net_interest_income	.565	.466	.375	1.211	.271	-.576	1.705

a. Dependent Variable: Net_profit_after_tax