

CREDIT RISK MANAGEMENT FRAMEWORK OF COMMERCIAL BANKS IN PAKISTAN: CONCEPTUAL REVIEW

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Abstract

The concept of credit risk or default risk has got significant attention in the literature of risk and corporate financial management. The main aim of this study is to explore the present level of credit risk and its management by commercial banks of Pakistan. For this purpose, the theoretical review is conducted based on the detailed investigation of credit risk management (CRM) practices by the banks which can further be used as guidelines for the banks in other regions. This paper reviews the annual reports, credit risk frameworks of individual banks, and finally the guidelines for CRM as issued by State Bank of Pakistan (SBP). Based on the review of this significant documentary evidence, it is found that commercial banks are making reasonable efforts to manage the credit risk but are not tackling it with full capacity. Increasing value of NPLs has proved that for the better efficiency and stability, these banks must have to review their CRM policies and practices. Besides, this study is a very first attempt in this regard to review the overall framework of credit risk and its management primarily from the context of Pakistani banks. Theoretical discussion of the study reveals significant facts and essential guidelines for the credit risk officers and similar members in other regions.

Keywords: CRM, SBP, NPLs, Banks, Pakistan

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