Abstract

This research explores the role of financial ratios in credit risk assessment within the banking sector, focusing on how these ratios are used to evaluate the creditworthiness of borrowers. Through a mixed-methods approach, the study examines the effectiveness of key financial ratios—such as liquidity ratios, profitability ratios, and leverage ratios—in predicting defaults and assessing overall credit risk. The goal is to identify which ratios are most predictive of credit risk and how they are integrated into banks' credit assessment models.

The research combines quantitative analysis of credit performance data with qualitative insights gathered from interviews with credit analysts, bankers, and financial experts. The quantitative analysis assesses the correlation between various financial ratios and the likelihood of loan defaults, using historical data from a range of financial institutions. In contrast, the qualitative component delves into the experiences and perceptions of professionals involved in the credit evaluation process, highlighting their reliance on financial ratios and any challenges they face when interpreting these metrics.

Findings from this study offer valuable insights into the role of financial ratios in improving credit risk assessment models and decision-making processes. The research provides practical recommendations for enhancing credit evaluation practices, contributing to more accurate risk predictions and improved financial stability within the banking sector. These insights are particularly relevant for both banks and regulatory bodies seeking to strengthen credit risk management frameworks.