Internship Report
on
Credit Risk Management Analysis of Mutual Trust Bank Limited

Submitted To

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Submitted By

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Program: MBA

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Letter of Transmittal

To
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Subject*:* Submission of Internship Report

Dear Sir,
This is my pleasure to show my report entitled **"Credit Risk Management Analysis of Mutual Trust Bank Limited"**. Where I have observed closely & studied about it, with your kind supervision I believed that the knowledge and experience gathered will provide me with hands on training. Please give me a chance that you acknowledge the report,

I will be thankful to you. I will be available for defense any time at your convenience. Your kind approval is solicited.

Sincerely yours,

Muttaseem Billah
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Letter of Approval

This is to certify that, Muttaseem Billah, ID No.: 173-14-2536, major in Accounting and HRM, is a regular student of Masters of Business Administration, Faculty of Business and Entrepreneurship Daffodil International University. He has successfully completed his internship program at Mutual Trust Bank Limited. He has prepared this report under my supervision. His assigned internship topic is "Credit Risk Management Analysis" of Mutual Trust Bank Limited: A Study on Gazipur Branch". The report is recommended for submission.

I wish his happiness, good health and every success in life.

Md. Arif Hassan
Assistant Professor
Department of Business Administration
Faculty of Business and Entrepreneurship
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Acknowledgement

At first and foremost I would like to thank the almighty Allah who created and gave me the opportunity to be educated and to be the student of the Daffodil International University.

I am grateful to honorable Supervisor Md. Arif Hassan, Assistant Professor, Department of Business Administration, Faculty of Business and Entrepreneurship, Daffodil International University for permitting me to undertake this research. I am grateful to her for his most constructive suggestions and informative guidance through class lecture.

I also express special gratitude to Md. Kabir Hossain, Officer & Manager, Mutual Trust Bank Limited, Bangla Bazar Sub Branch his direct supervisor and guidance. Without their assistance, this report probably won't have been a complete one.

I would like to apologize for my forgetfulness and finally I would like to thank the Internet explorer where information is constant and available about Mutual Trust Bank Limited.

I would like to thank to all of my honorable teachers, administrative personnel, office staff of the department and my fellows who always motivate, support, cooperation and guide me to effort harder for my studies.

Executive Summary

Mutual Trust Bank Limited is an incorporated as a public Limited bank in Bangladesh. This is one of the main private business banks which are set up under the keeping company Act 1994, the bank started its task on 29th September, 1999 with an essential goal of offering a wide range of business managing an account benefits generally focus on small and medium business people everywhere throughout the nation. At present Mutual Trust Bank Limited have 156 branches, over 312 ATM Booths, Debit Card 304896, Credit Card 100209, 405 SME Unit Offices, 1,800 remittance delivery points and 17,373 human resources, Customers 11,55,179 number .

The report have a general thought regarding capacity and procedure of credit, and methods used to assess credit proposition, superior steps taken to restore the Bank's dire system of Mutual Trust Bank Limited. Lending is one of the main functions of a bank. The goal of Credit Risk the executives of Mutual Trust Bank Limited is to limit the hazard and boost banks chance balanced rate of return by expecting and keeping up credit presentation inside the satisfactory parameters. The Credit Risk Management office is in charge of maintaining the respectability of the Bank's return profile. The report discusses the nature of credit, types of credit, credit risk, management system, policies, credit approval process, credit risk, management committee, credit risk monitoring and performance of Mutual Trust Bank Limited.

The study not only focuses on the activities of Mutual Trust Bank Limited but also highlights the credit risk management system of the bank. In the first chapter of this report contains some description about the banking sector and the perspective of the Mutual Trust Bank Limited. The next chapter of this report is about the company. Their corporate mission and vision. How they exercise their key management profile. The third chapter contains the theoretical background of credit risk management. The fourth chapter is the analysis part of this report, which contains performance analysis of classified loan and advance, loan to deposit ratio, standard loan, sub-standard loan, doubtful loan and bad and loss loan of Mutual Trust Bank Limited. Final chapter five includes some findings that made based on the analysis part and some recommendation for the improvement of credit performance.

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1.1 Introduction

The country's overall financial condition. Banks act as intermediaries by mobilizing surplus funds from sectors with excess resources and channeling them to areas in need of financial support, thereby fostering economic development.

However, as banks extend loans and provide financial assistance, they face the inherent challenge of credit risk. This issue remains a persistent concern for many banks, posing a performance.

To implement an effective and robust credit risk management system. Such a system helps mitigate risk factors and ensures efficient financial management and lending practices. Recognizing the importance of this issue, my internship report focuses on the topic.

1.2 Statement of the Problem

The report constitutes a significant component of the MBA program offered by Daffodil International University. In today's world, education extends beyond books and classrooms. Internships provide a practical platform to bridge theoretical learning with real-world applications, enabling students to utilize their academic knowledge in practical settings.
Through my internship at Mutual Trust Bank Limited, I had the opportunity to gain hands-on experience in the business environment and explore various practical aspects of my education. DIU strives to produce globally competent postgraduates equipped

A structured and objective communication of information serving a specific business purpose. To achieve this objective, it is crucial to clearly define the topic of the report. The focus of this report has been outlined in its preliminary phase.

1.3 Objectives of the Study

- To describe the credit risk of MTBL;
- To analyze the credit performance of MTBL;

1.4 Methodology

Alongside primary data, secondary data were also compiled to ensure comprehensive and accurate results. The report was prepared using information obtained from both primary and secondary sources.

1.5 Scope of the Study

Internship experiences play a vital role for students, enabling them to apply theoretical knowledge and gain practical insights within an organizational setting. These experiences help students prepare for their future professional endeavors. Mutual Trust Bank Limited provided me with an excellent opportunity to acquire hands-on experience and compile this report. This report aims to benefit emerging banks and financial institutions seeking to establish an effective Credit Risk Management Department. Additionally, it serves as a valuable resource for business students eager to understand various aspects.

1.6 Limitations

- The limited timeframe of the study made it challenging to explore all aspects of Mutual Trust Bank Limited thoroughly.
- To maintain confidentiality, employees of Mutual Trust Bank Limited were reluctant to share specific information necessary for the preparation of this report.

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Summary of MTBL

2.1 Back Ground

MTBL operates under the guidance of a skilled and professional team, fostering an environment of trust and discipline that inspires employees to collaborate effectively in achieving the Bank's goals. The emphasis on maintaining a positive and harmonious workplace culture allows staff members to align more effectively with management expectations.

The Bank is committed to delivering exceptional service quality, which defines its identity. Furthermore, Mutual Trust Bank takes pride in promoting gender equality by incorporating a significant number of women into the banking profession.

2.2 Missions

- Providing premium financial services utilizing cutting-edge technology
- Delivering prompt and efficient customer service
- Pursuing a sustainable growth strategy
- Adhering to ethical business practices
- Ensuring consistent returns
- Offering innovative banking solutions at competitive rates
- Attracting and retaining skilled and talented human resources
- Upholding a strong commitment to Corporate Social Responsibilit

CHAPTER: 3

Theoretical

3.1 Risks faced by banks

- Operational Risk: These are costs associated with errors in executing transactions, such as settlement failures, non-compliance with regulatory requirements, and delays in collections.
- Performances Risk: This involves losses stemming from inadequate employee supervision or the use of inappropriate methods (David H. Pyle, 1997).
- In general, commercial banks encounter these types of risks in their operations.

3.1.1 Credit Risk

As one of the oldest and most significant forms of risk encountered by banks in their role as financial intermediaries (Broll et al., 2002), credit risk poses a substantial threat to commercial banks, often leading to potential losses (Bo et al., 2005).

Typically, higher credit risk necessitates banks to charge elevated credit premiums, which in turn contributes to an increase.

3.1.2 Market Risk

One significant aspect of market risk is interest rate risk, which arises from changes in a bank's income due to fluctuations in market interest rates. This risk is particularly critical for banks because of the nominal nature of their assets and mismatches in the maturities of their assets and liabilities (Hasan and Sarkar, 2002). Some studies suggest that higher interest rates can have a positive impact on banks (Hanweck and Ryu, 2004; Hyde, 2007).

3.1.3 Equity Risk

This metric reflects the expected range of price fluctuations above and below the average value of the security. However, since many investors do not perceive returns exceeding the average as a "risk," some economists advocate for alternative methods of assessing equity risk.

3.1.4 Money Laundering Risk

This type of risk arises from attempts to obscure the origins of illegally-obtained funds, such as those acquired through drug trafficking, corruption, accounting fraud, tax evasion, and other illicit activities, by passing them through banking channels to make the proceeds appear legitimate (Wikipedia).

3.1.5 Information-Technology Risk

It also extends to risks associated with IT systems, failures, hacking, virus attacks, lack of technical expertise, and poor system integration.

3.1.6 Liquidity Risk

Additionally, liquidity risk emerges when a bank is unable to a shortage of cash or cash-equivalent assets. Banks face heightened exposure risk when increased liquidity demands require selling illiquid assets, potentially leading to significant.

3.1.7 Human Resource Risk

Internal risks can stem from recruitment challenges, such as failing to hire the right individuals for specific roles, ineffective recruitment processes, lack of performance feedback, over-dependence on, and inadequate programs.

3.2 Techniques-Risk - Management

3.2.1 GAP-Analysis

This method serves as a tool for managing interest rate risks based on the balance sheet, emphasizing the potential fluctuations in net interest income over defined time periods. It involves creating a maturity or re-pricing schedule, which categorizes interest-sensitive assets, liabilities, and off-balance sheet items into specific time bands based on their maturity (for fixed rates) or the next re-pricing date (for floating rates). These schedules are then utilized to derive indicators that measure the sensitivity of both earnings and economic value to changes in interest rates.

Once the time intervals are determined, assets and liabilities are allocated into corresponding time buckets based on their maturity for fixed-rate instruments or their earliest re-pricing opportunity for variable-rate instruments.

GAP = RSAs– RSLs

The GAP analysis provides management with insights into how fluctuations in interest rates may impact net income. Suggests that an increase in interest rates would lead to higher net interest income because the rise in interest income surpasses the rise, and the opposite holds true for a negative GAP.

3.2.2 Duration-GAP Analysis

Conversely, the opposite occurs when interest rates decrease (Cumming and Beverly, 2001).

3.2.3 RAROC

RAROC analysis helps determine the amount of economic capital required by different products and business segments while also calculating the overall return on capital for a firm.

3.2.4 Sensitivity Analysis

This approach is highly effective for assessing the potential impact of variations in a specific variable compared to initial assumptions. By constructing a range of scenarios, analysts can evaluate how changes in one or more variables influence the target variable.

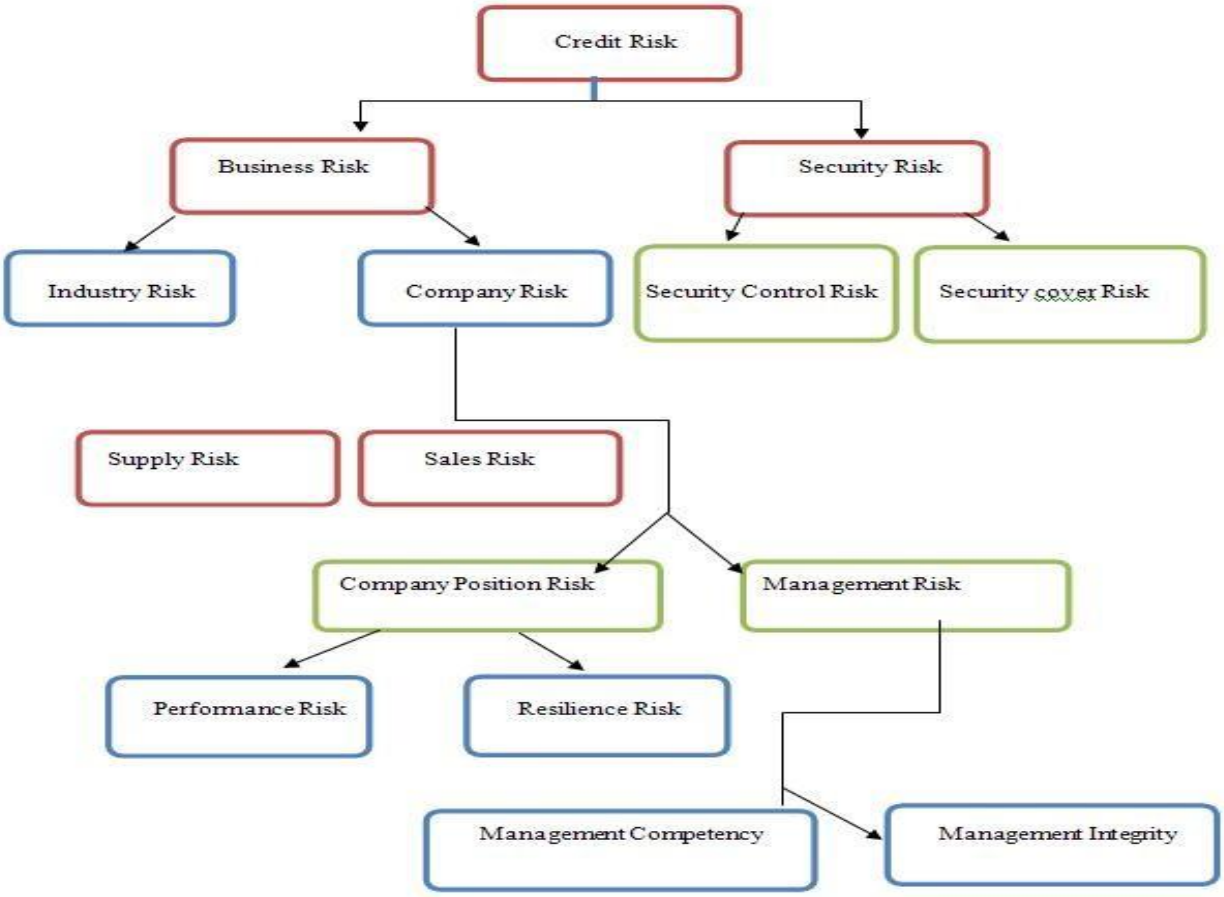
3.3 Credit Risk Management of Mutual Trust Bank

Its financial obligations. Since counterparties can range from individuals to sovereign governments and the types of obligations can vary widely, institutions manage this risk using different strategies. When assessing credit risk associated with a single counterparty, three critical factors must be considered:

Recovery Rate: If a default occurs, this represents the proportion of the exposure that can potentially.

To meet its commitments, which includes both the probability of default and the anticipated recovery rate.

To mitigate this risk, banks employ credit analysts who review financial data from corporations seeking loans and assess their creditworthiness. This evaluation helps determine the likelihood that the borrower will meet loan repayment obligations, allowing the bank to make informed decisions about granting loan


Credit Risk
Business Risk
Security Risk
Industry Risk
Company Risk
Security Control Risk
Security cover Risk
Supply Risk
Sales Risk
Company Position Risk
Management Risk
Performance Risk
Resilience Risk
Management Competency
Management Integrity

3.5.1 Business-Risk

- Supply Risk: Supply risk refers to the potential disruptions in the availability of inputs required for business operations. This includes risks related to, and other essential supplies.
- Sales Risk: Sales risk pertains to the possibility of external disruptions that adversely affect the business's sales. These disruptions can arise from changes in market size, increased competition, regulatory modifications, or the loss of a major customer.
- Resilience Risk: This risk occurs when a company is unable to withstand unexpected external challenges. Factors influencing resilience include the company's leverage, robustness of its networks.
- Management Competence Risk: This refers to the risk of failure due to the management's inability to efficiently and effectively run the business. The competence of management.
- Management Integrity Risk: This is the risk of failure to repay loans caused by a lack of integrity within the management team.

3.6 Credit Policy of Mutual Trust Bank Limited

The policy emphasizes thorough credit assessments and risk grading for all clients during both approval and portfolio review processes.

Additionally, the policy outlines guidelines for essential aspects of credit management, including data requirements for credit evaluation, marketing strategies, approval processes, loan monitoring, early warning mechanisms.

Chapter 4

Analysis

4.1 Loan and Advance of MTBL

The true resilience of an Bank is demonstrated by its ability to adapt to environmental challenges and transform them into opportunities. Despite the downward trend in interest rates, the demand for private sector credit has largely remained subdued. Nevertheless, we have successfully maintained a positive trajectory in this context.

Year	Loan & Advances	Growth rate
2018	166,145,119,129	
2019	189,729,715,862	12%
2020	203,887,322,069	7%
2021	226,011,574,670	10%
2022	253,835,694,386	12%

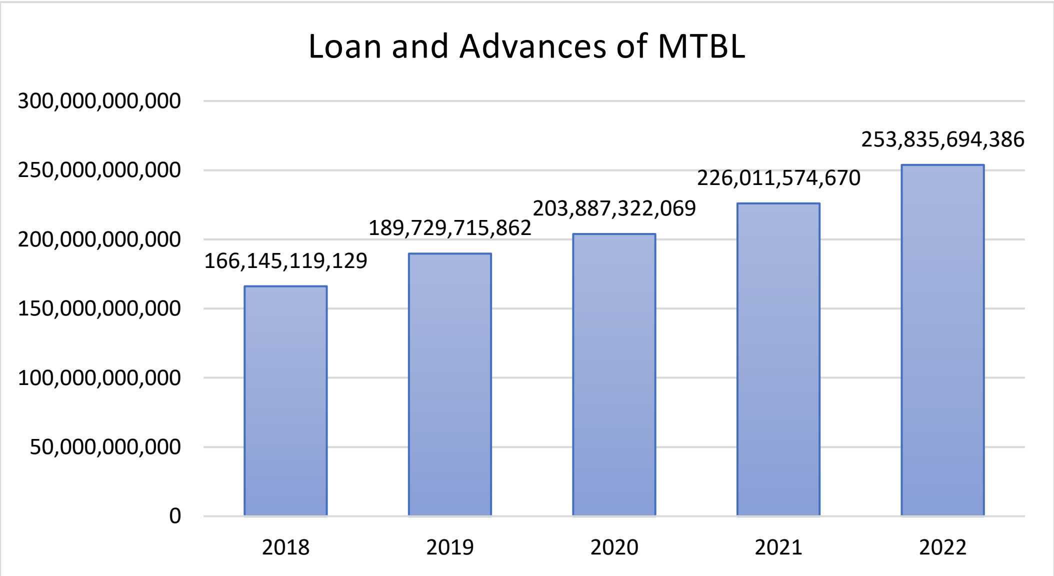


Figure 4.1: Loan and Advances of MTBL

The total loans and advances of Mutual Trust Bank Limited (MTBL) have shown consistent growth over the years. In 2018, the total loans stood at Tk. 166,145,119,129, increasing to Tk. 189,729,715,862 in 2019. By 2020, this figure had risen to Tk. 203,887,322,069, further growing to Tk. 226,011,574,670 in 2021, and reaching Tk. 253,835,694,386 in 2022.

The trend, as depicted in the accompanying graph, highlights a steady increase in loans and advances, attributed to MTBL’s attractive and flexible loan offerings. The bank effectively manages a diversified portfolio, reducing the risk of overexposure to any single industry. Currently.

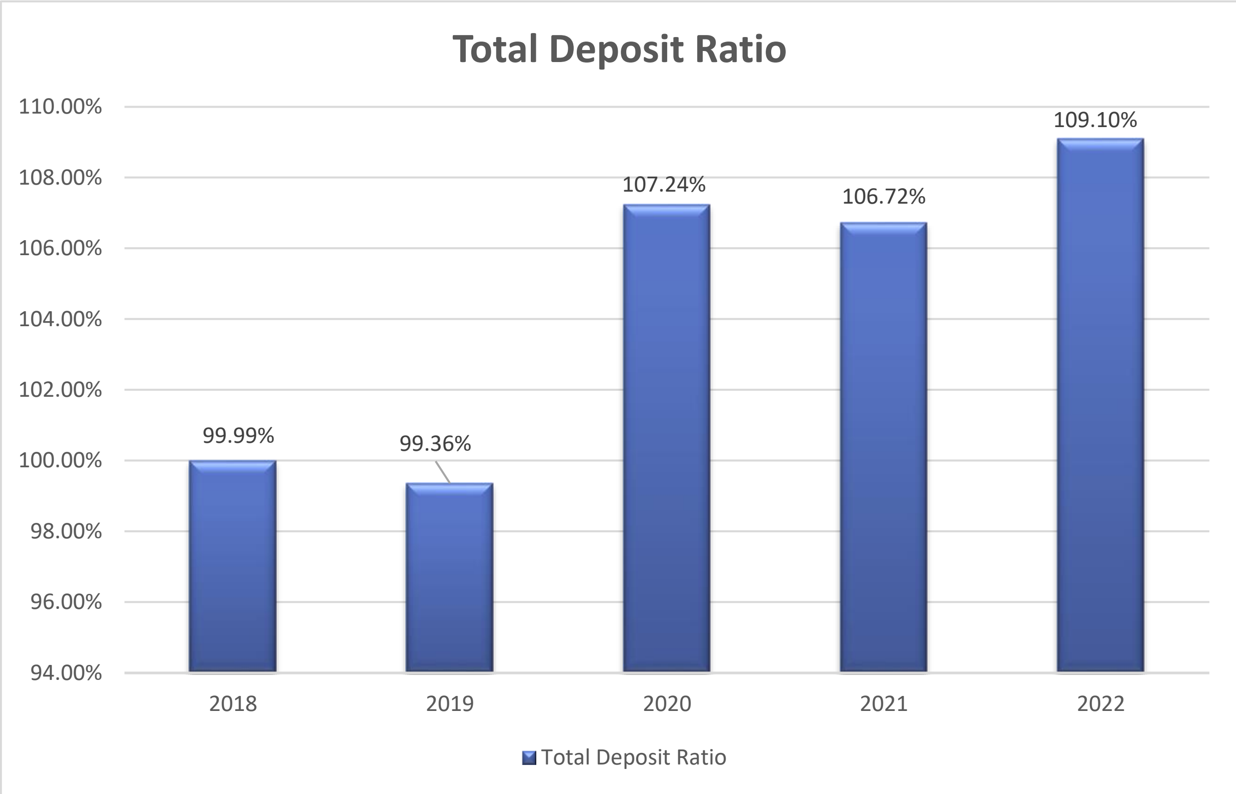
4.2 Loan to Deposit Ratio:

A low LDR might indicate that the bank is not maximizing its earning potential, while a high LDR could signal insufficient liquidity to manage unexpected funding needs or economic downturns. This ratio is a key metric used by banking analysts to evaluate a bank's liquidity and financial stability.

Loan to deposit ratio:

(Amount in Million)

Year	2018	2019	2020	2021	2022
Total Loan & Advances	166,145,119,129	189,729,715,862	203,887,322,069	226,011,574,670	253,835,694,386
Total Deposit	166,160,290,425	190,947,704,349	190,120,484,514	211,782,425,769	232,657,443,657
Loan to Deposit Ratio	99.99%	99.36%	107.24%	106.72%	109.10%



The bar charts illustrate the total deposit ratio of Mutual Trust Bank Limited (MTBL) from 2018 to 2022. In 2018, the total deposits amounted to Tk. 166,160,290,425, with a loan-to-deposit ratio of 99.99%. In the following year, 2019, the ratio decreased to 99.36%. Over the subsequent three years, from 2020 to 2022, the loan-to-deposit ratio experienced fluctuations, showing an upward trend in some years and a downward trend in others.

4.3 Standard Loan:

Standard Loan of Mutual Trust Bank Limited				
Year	**Total Loans and Advances (BDT)**	**Amount of Standard Loan (BDT)**	**Growth rate**	**Ratio of Standard**
2018	166,145,119,129	153,226,820,129		92.22%
2019	189,729,715,862	171,958,458,994	12%	90.63%
2020	203,887,322,069	188,569,184,101	10%	92.49%
2021	226,011,574,670	203,333,855,033	8%	89.97%
2022	253,835,694,386	230,577,350,242	13%	90.84%

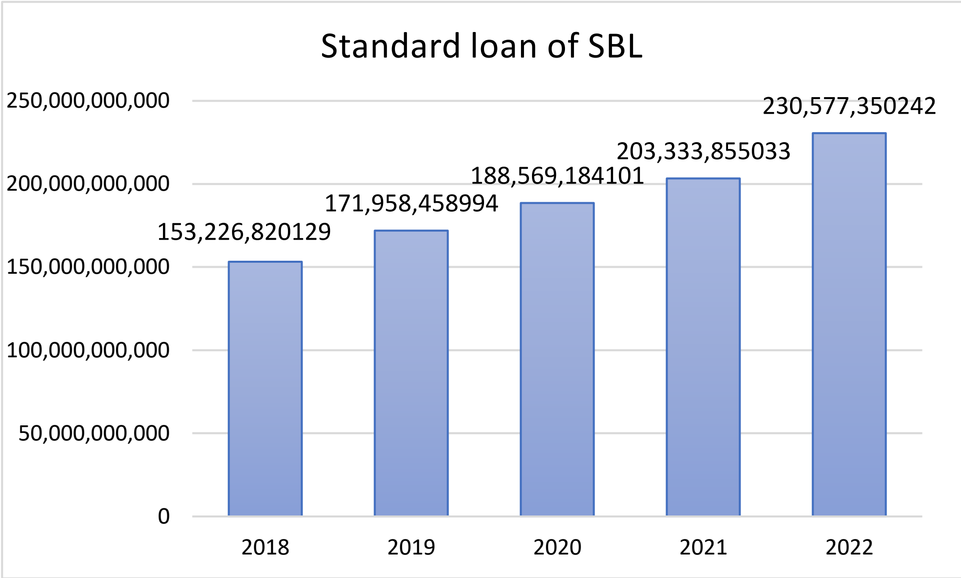


Figure 4.3: Standard Loan of Mutual Trust Bank Limited

The figure above depicts the standard loan performance of Standard Bank Limited from 2018 to 2022. In 2018, the standard loan amount was Tk. 153,226,820,129, with a standard loan ratio of 92.22%. In the following year, 2019, the ratio decreased to 90.63%. Over the next three years, from 2020 to 2022, the standard loan ratio showed fluctuations, experiencing periods of increase, decrease, and subsequent recovery.

Special Mention Account of Mutual Trust Bank Limited				
Year	**Total Loans and Advances (BDT)**	**Amount of Special Mention Account (BDT)**	**Growth Rate**	**Ratio of SMA**
2018	166,145,119,129	3,966,898,255		2.39%
2019	189,729,715,862	7,544,039,035	90%	3.98%
2020	203,887,322,069	5,930,405,968	-21%	2.91%
2021	226,011,574,670	6,483,324,221	9%	2.87%
2022	253,835,694,386	5,715,080,041	-12%	2.25%

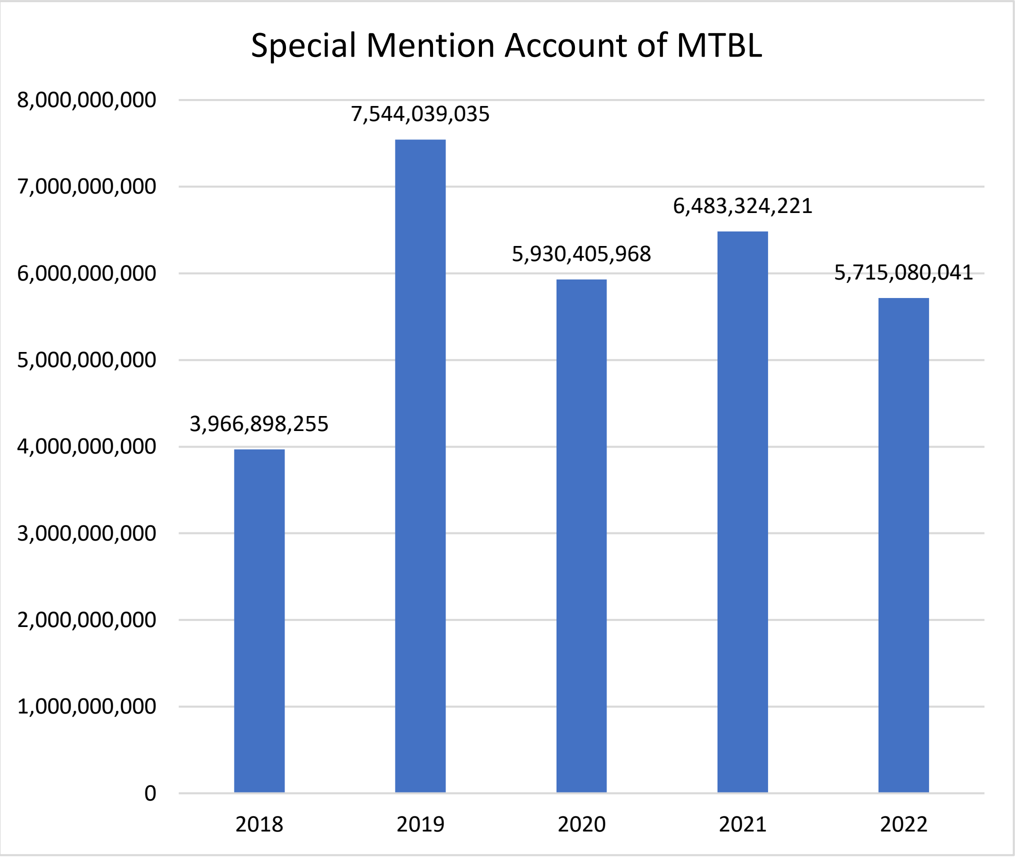
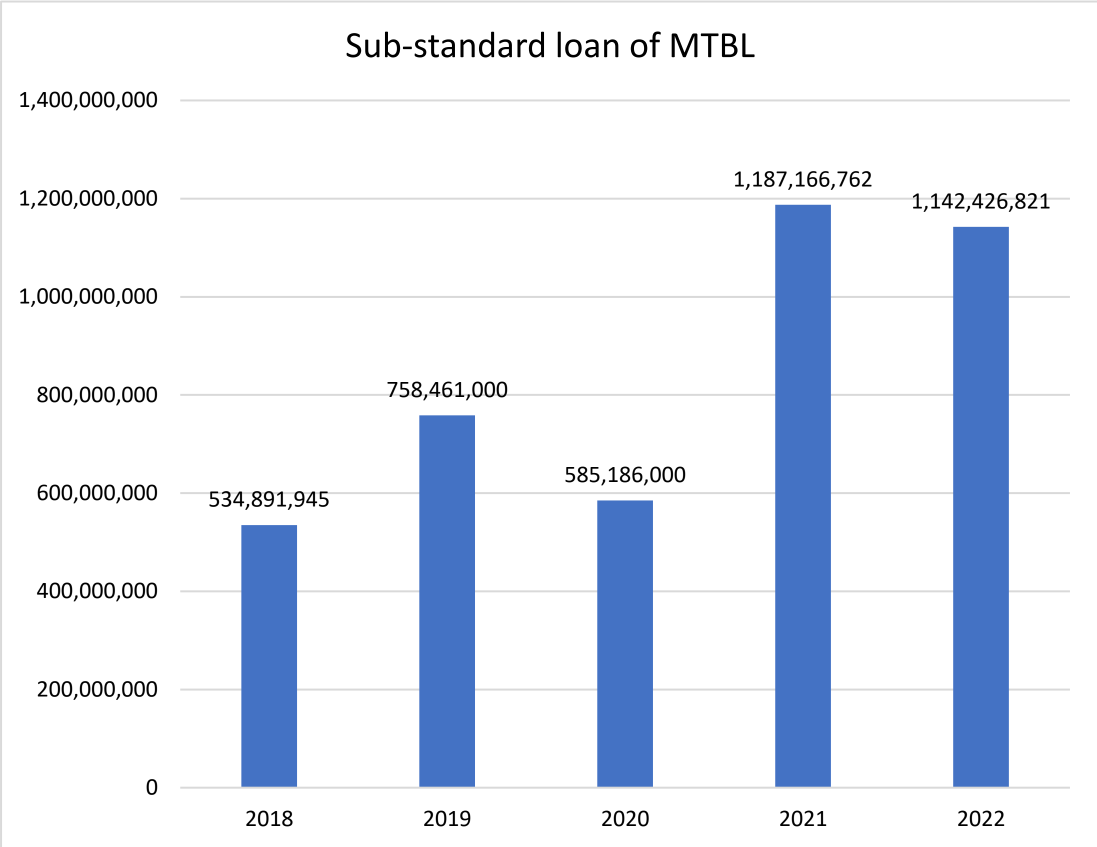


Figure 4.4: Special Mention Account of Mutual Trust Bank Limited

The figure above clearly shows that in 2019, the growth rate of Special Mention Account (SMA) loans was 90%, with an SMA ratio of 3.98%. In 2020, the growth rate declined by 21%, and the SMA ratio decreased to 2.91%, lower than the previous year's ratio. In 2021, there was a 9% increase in the growth rate, but the SMA ratio slightly dropped to 2.87%. Finally, in 2022, the growth rate fell by 12%, and the SMA ratio further decreased to 2.44%, which was lower than the ratio in 2021.

4.5 Sub Standard Loan

Sub Standard Loan of Mutual Trust Bank Limited				
Year	**Total Loans and Advances (BDT)**	**Amount of Sub dard Loan (BDT)**	**Growth Rate Ratio**	**Ratio of Sub- standard Loan**
2018	166,145,119,129	534,891,945		0.32%
2019	189,729,715,862	7,544,039,035	42%	3.98%
2020	203,887,322,069	585,186,000	-23%	0.29%
2021	226,011,574,670	1,187,166,762	103%	0.53%
2022	253,835,694,386	1,142,426,821	-4%	0.45%

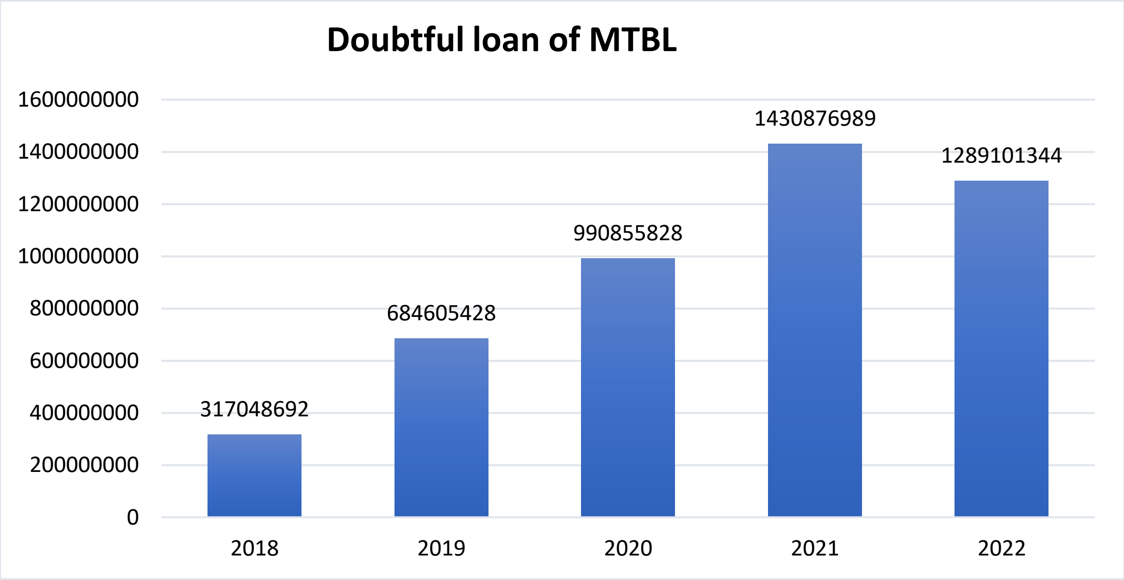


The figure above clearly shows that in 2019, the growth rate of Special Mention Account (SMA) loans was 90%, with an SMA ratio of 3.98%. In 2020, the growth rate declined by 21%, and the SMA ratio decreased to 2.91%, lower than the previous year's ratio. In 2021, there was a 9% increase in the growth rate, but the SMA ratio slightly dropped to 2.87%. Finally, in 2022, the growth rate fell by 12%, and the SMA ratio further decreased to 2.44%, which was lower than the ratio in 2021.

4.6 Doubtful Loan

This category refers to loans where there are doubts about full recovery, and while a loss is expected, it cannot be precisely quantified at this stage. The overdue period for this type of loan ranges from 271 to 360 days. Such loans are considered classified loans.

Doubtful Loan of Mutual Trust Bank Limited				
Year	**Total Loans and Advances (BDT)**	**Amount of Doubtful Loan (BDT)**	**Growth Rate**	**Percentage of Doubtful Loan in Total Loans**
2018	166,145,119,129	380,656,648		0.23%
2019	189,729,715,862	379,076,833	0.42%	0.20%
2020	203,887,322,069	261,891,000	-30.91%	0.13%
2021	226,011,574,670	661,520,499	152.59%	0.29%
2022	253,835,694,386	1,092,241,101	65.11%	0.43%



The figure 4.6 illustrates the doubtful loans of MTBL. In 2019, the growth rate of doubtful loans was 0.042%, which was significantly higher than in other years. In 2020, the growth rate dropped to -30.91%, while in 2021, it surged to 152.59%. However, in the final year, 2022, the growth rate decreased to 65%.

4.7 Bad/Loss Loan

This type of loan is not recovered within 360 days and is considered another example of a classified loan.

Bad/Loss Loan of Mutual Trust Bank Limited				
Year	**Total Loans and Advances (BDT)**	**Amount of Bad/Loss Loan (BDT)**	**Growth Rate**	**Percentage of Bad/Loss Loan in Total Loans and Advances**
2018	166,145,119,129	8,055,852,152		4.85%
2019	189,729,715,862	9,089,680,000	13%	4.79%
2020	203,887,322,069	85,406,550,001	840%	41.89%
2021	226,011,574,670	11,258,333,739	-87%	4.98%
2022	253,835,694,386	12,418,141,454	10%	4.89%

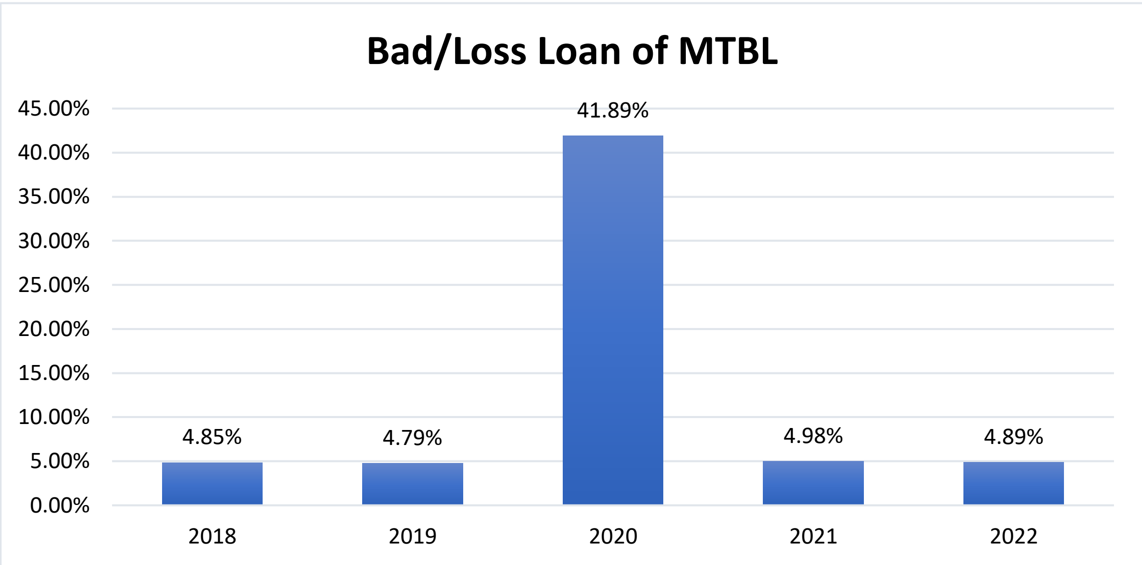


Figure 4.7: Bad/Loss Loan of Mutual Trust Bank Limited

In 2019, the growth rate was 13%, with the Bad/Loss Loan ratio at 4.79% of the total loans and advances. By 2020, the ratio rose to 41.89%. However, the average growth rate of Bad/Loss Loans is not satisfactory. In 2022, the amount of Bad/Loss Loans did not increase, which was a positive outcome for the bank.

Particulars	2022	Ratio
Agriculture and Fishery	4,176,042,840	1.67%
RMG	38,210,821,382	15.29%
Textile and Readymade Garments	10,243,389,051	4.10%
Ship Building	1,982,118,073	0.79%
Ship Breaking	3,785,669,260	1.51%
Other Manufacturing Industry	88,723,446,369	35.50%
SME Loans	32,376,279,324	12.95%
Construction and Engineering	10,401,416,269	4.16%
Power & Energy	2,670,674,429	1.07%
Transport, Storage & Communication	2,085,813,435	0.83%
Trade Service	15,784,403,073	6.32%
Commercial real estate financing	6,115,036,200	2.45%
Residential real estate financing	730,233,679	0.29%
Consumer Credit	18,888,018,055	7.56%
Capital Market(Loan Provided for brokerage or merchant banking, to stock delar or any kind of capital market activities)	422,923,095	0.17
NBFIS	4,746,788,198	1.90%
Others	8,587,194,248	3.44%
Total	249,930,266,980	100%

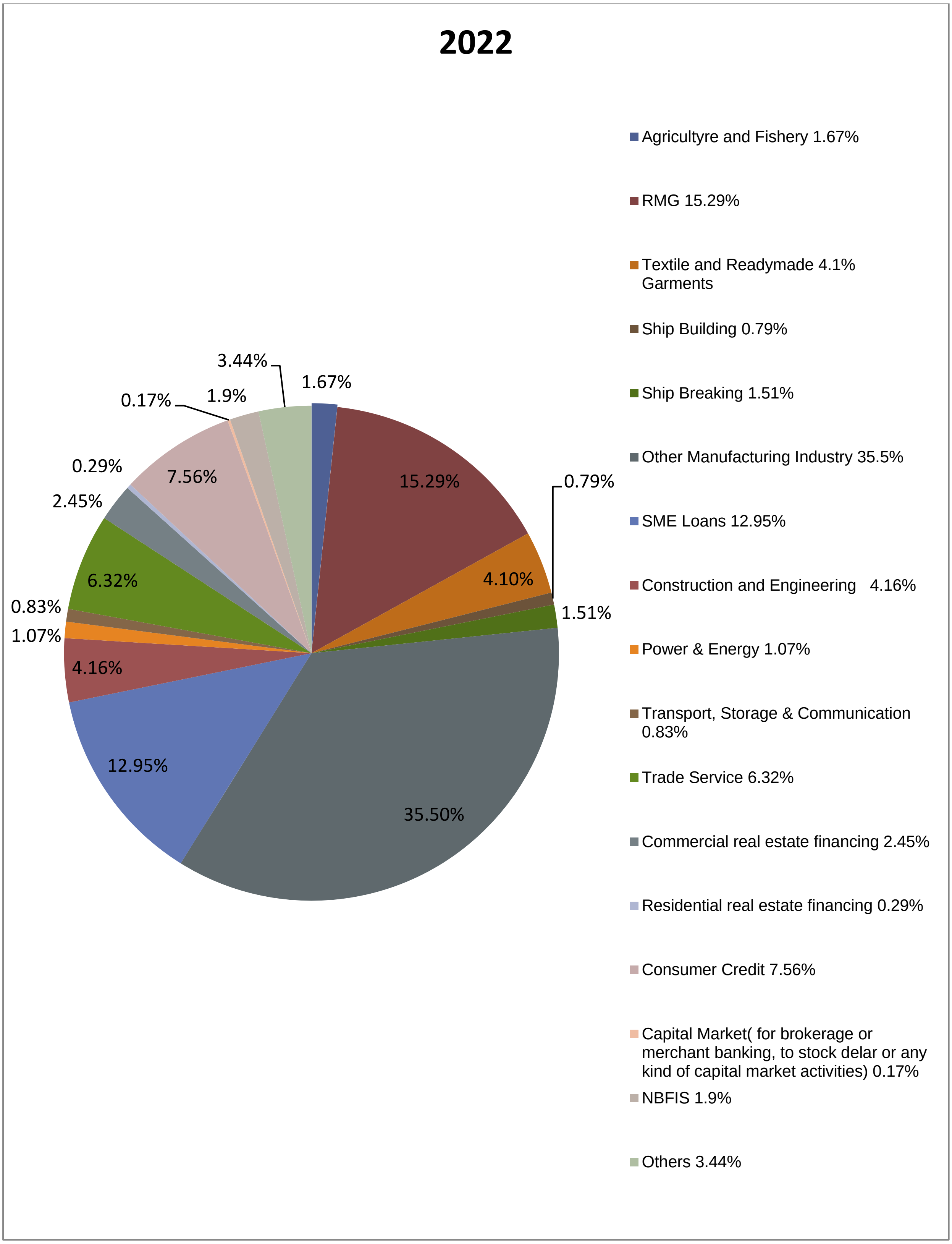


Figure 4.9: Sector wise Loan of MTBL

The figure and graph above display the sector-wise loan distribution of Mutual Trust Bank Limited for the year 2022. It shows that loans provided to the Agriculture and

Fishery sector accounted for 1.67%. The highest proportion of loans, 35.5%, was allocated to other manufacturing industries, while the lowest share was given to the Capital Market, at 0.17%. Loans for Trade Services and other services were approximately 6.32% and 3.44%, respectively.

Chapter - 5

5.1 Findings

1. The total loans and advances of MTBL have shown a consistent increase, with the total amount reaching 253,835,694,386 taka in 2022, significantly higher than the previous four years. The loan amount in 2022 rose by 12% compared to 2021.
2. The loan-to-deposit ratio of MTBL was 99.99% in 2018. In 2019, the ratio decreased, but it started to rise again in 2020 before falling in 2021. However, in 2022, the ratio increased sharply to 109.10%. This rapid increase suggests that the bank may face cash liquidity risks.
3. The standard loan ratio should ideally be maintained between 70% and 75%. However, MTBL's standard loan ratio has ranged from 89.97% to 92.49% over the past five years. Specifically, in 2018, the ratio was 92.22%, and in 2022, it was 90.84%.
4. The ratios of SMA loans at MTBL have fluctuated over the years. In 2018, the SMA ratio was 2.39%, while in 2022, it decreased slightly to 2.25%. MTBL has been reducing its SMA loans.
5. Sub-standard loans have also shown fluctuation. From 2018 to 2019, the ratio increased from 0.32% to 3.98%. However, in 2020, it decreased slightly to 3.98%, before rising again in subsequent years.
6. The proportion of doubtful loans has been increasing gradually. While the ratio was the lowest in 2020 compared to other years, it reached its highest point in 2022, with a ratio of 0.43%.
7. The amount of bad loans at MTBL has been increasing annually, with 2020 experiencing the highest increase compared to the previous four years.
8. To meet the growing demands of its customers, MTBL provides a range of attractive loan facilities. However, customers have expressed dissatisfaction with the lengthy credit sanctioning and disbursement process.

5.2 Recommendations:

1. MTBL should work on expanding its credit portfolio by establishing a dedicated team to continuously monitor and manage the credit risk framework.
2. There is a need for MTBL to increase awareness within the bank and encourage customers to take out loans, thereby promoting a more active loan uptake.
3. MTBL should introduce and improve standard loan ratios, ensure better data management, and rigorously monitor compliance with credit management policies.
4. MTBL needs to pay more attention to the SMA loan sector, as it has been on a declining trend in recent years.
5. To reduce the amount of sub-standard loans, MTBL can develop more tailored credit approval criteria while staying aligned with the overall guidelines of Bangladesh Bank.
6. To improve the performance of doubtful loans and ensure a stable business environment, MTBL must properly evaluate the value of collateral used in securing loans.
7. To reduce bad and loss loans, MTBL should emphasize timely repayment from customers and take necessary legal action against persistent defaulters through appropriate legal channels.

References

- **Annual report of MTBL from year 2018 to year 2022**
- **Website of MTBL, https://www.mutualtrustbankltd.com.bd/www.google.com**
- **http://www.investorwords.com**
- **Wikipedia**
- **Slide share**