



Daffodil
International
University

**An Analysis of the Credit Management of Sonali Bank Limited: A Study on
NCTB Branch**

Supervised By

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সোনালী ব্যাংক লিমিটেড

Sonali Bank Limited

Acknowledgement

First of all, thanks to The Almighty Allah the supreme governor of the universe for giving me the strength to successfully complete the internship program. Achieving any goal requires many help and support from various way rather than sources. I am very lucky to get the help and support.

I pay my heartiest gratitude to my honorable supervisor Professor Mohammed Masum Iqbal, Department of Business Administration who helped me to make this report.

Moreover, I am very grateful to the executives who have helped me, given their time to me for making this report. I would like to Golam Mohiuddin (Assistant General Manager, Sonali Bank NCTB Branch), Anwar Hossain (Principal of Sonali Bank NCTB Branch), Md. Faozul Karim (Executive ,Sonali Bank NCTB Branch, Loan and Advance Department), Pravash Kanti Dhar (Principal Officer, Sonali Bank NCTB Branch),Ensan Uddin Ahmed(principal Ofiicer,Sonali bank NCTB Branch),MD Hasanur Rahman (Officer, Cash Sonali Bank NCTB Branch, Clearing/Security Deposit),MD Yousuf Hayder(Officer, Sonali Bank NCTB Branch).

Letter of Transmittal

To
Dr. Mohammed Masum Iqbal
Professor
Department of Business Administration
Daffodil International University
Dhaka- 1207

Subject: Submission of Internship Report on “An Analysis of the Credit Management of Sonali Bank Limited: A Study on NCTB Branch.”

Dear Sir,

Here is the report on “An Analysis of the Credit Management of Sonali Bank Limited: A Study on NCTB Branch”. It was my pleasure to work on such an engrossing object. This opportunity provides me with the scope to implement my knowledge about banking system. I tried my level best to compile the information

I hope this report will meet your satisfaction and impress you a lot.

Sincerely yours,

.....

Sayma Sadya Lucky
ID: 151-11-4426
Major in Finance
Department of Business Administration
Daffodil International University

Declaration

I, Sayma Sadya Lucky hereby provide the complete affirmation that the report entitled “An Analysis of the Credit Management of Sonali Bank Limited : A Study on NCTB Branch” is prepared by after completion of internship program in Sonali bank Limited,NCTB Branch under the excellent supervision of Dr. Mohammed Masum Iqbal, Professor and Dean, Department of Business Administration, Daffodil International university. I also ascertain that the report is completely substantive and reliable from all of the propagation. It is prepared for academic requirement BBA program not for other motives.

I hope that honorable faculty will consider my mistakes with graceful perspective.

.....

Sayma Sadya Lucky

ID: 151-11-4426

Major in Finance

Program: Bachelor of Business Administration

Department of Business Administration

Daffodil International University

Letter of Acceptance

I am very pleased to declare that Sayma Sadya Lucky, ID: 151-11-4426, BBA 40th Batch Daffodil International University has successfully completed her Internship program entitled “An Analysis of the Credit Management of Sonali Bank Limited: A Study on NCTB Branch” under my direct and active supervision.

The report is recommended for submission.



Handwritten signature in blue ink, dated 11.02.19.

.....
Dr. Mohammed Masum Iqbal

Professor

Department of Business Administration

Daffodil International University

Executive Summary

Sonali Bank Ltd. is the largest state bank of Bangladesh. Sonali bank Ltd follows the rules and regulation prescribed by the Bangladesh bank. The function covered a wide range of banking and functional activities. The main intention of the Bank is to provide all of banking services at the doorsteps of the people.

This is an orientation report conducting A Study on “An Analysis of the Credit Management of Sonali Bank Limited: A Study on NCTB Branch”. The objective for making this report is to identify the credit products and services, analyze credit appraisal, and explain loan disbursement and recovery system of Sonali Bank Limited. After analyzing problems must be identified and proper recommendation is to be given for solving the problems. Various sources are be used to collect the proper information and achieve the goals. Observations, team work, discussions methods are used to gain information needed.

Sonali Bank provide a safe and convenient way to accumulate savings and offer services for managing money. The bank provided customer with a safe lending opportunity and the recipients are liable to pay interest. It is an incentive for the bank to engage in the loan. They follow liable way to disburse the loan and finally to recover the payments.

After analyzing it is founded out that the bank is not concerned about publicity , maximum loan are given to long-term sector,, huge overdues,customer relations is little-bit poor, have not enough skilled employees. These types of lakings must be reduced. Bank must imposed necessary steps against the problems. They can employ more skilled person. Bank should give sufficient support to SME and other micro-credit sectors. They should be more aware about their potential customer.

Table of Content

Serial No	Contents	Page No.
1.	Acknowledgement	ii
2.	Letter of transmittal	iii
3.	Declaration	iv
4.	Letter of Acceptance	v
5.	Executive Summery	vi
Chapter- 1 Introduction		
1.1)	Introduction	2
1.2)	Origin of the Study	2
1.3)	Objectives of the study	3
1.4)	Methodology	3
1.5)	Scope of the Study	4
1.6)	Limitations of the Study	4
Chapter-2 Organizational Profile of Sonali Bank		
2.1)	Historical Background of the branch	6
2.2)	Features of SBL, NCTB Branch	6-7
2.3)	Vision and Mission	7
2.4)	Corporate Profile	8
2.5)	Core values	8-9
Chapter-3 Product of SBL, NCTB Branch		
3.1)	Products and Services of SBL, NCTB Branch	11
3.2)	Business Overview of SBL, NCTB Branch	11
Chapter-4 Loan Disbursement and Recovery System Of Sonali Bank		

4.1)	Loan Disbursement and Recovery	13
4.2)	Different Categories of Loan	14
4.3)	Types of loan offered by Sonali bank	17
4.4)	Loan Monitoring	21
4.5)	Principles of sound lending	21-23
4.6)	Loan proposal and Disbursement procedures	24
4.7)	Loan Recovery and Procedures	25-28
4.8)	Loan Risk Evaluation	29
4.9)	Risk Area	30-31
Chapter-5 Analysis		
	Analysis Performance of Loan and Advance Department, NCTB Branch	33-36
Chapter-6 Problems and Recommendations		
6.1)	Problems	38
6.2)	Recommendations	39
6.3)	Conclusion.	40
	Reference	41

Chapter-1

Introduction

1.1) Introduction:

Sonali bank is the largest state-owned commercial bank in Bangladesh. It is established under Bangladesh Banks Nationalization Order 1972, President Order 26, 1972 consisting of National Bank of Pakistan, Bank of Bahawalpur and Premier Bank. Sonali Bank was registered on 3 June 2007 as a Public Company Limited under company's act 1994 with the joint stock companies and firms for managerial agency and developing bank services. The main focus of the Sonali bank is to provide all types of banking services to the door steps of the people. The bank participates in various socio-economic activities.

The report has been set up as the prerequisite for the culmination of the BBA program under Department of Business Administration, Daffodil International University. I have prepared the report based on my three months internship program Sonali Bank Limited, NCTB Branch. In my report I have concentrated for most part on the investigation of exercise execution and significant business issues of the organization. I was put in the operation of Loan and Advance Department of Sonali Bank, NCTB Branch. This report will suggest a short rundown on different activities and capabilities of the division.

1.2) Origin of the Study:

In the business world, the practical exercise is regarded as a media through which we have a acquaintance with the real world. The report has been arranged as a requirement of BBA program Of Daffodil International University under the supervision and direction of Dr, Mohammed Masum Iqbal, Professor and Department of Business Administration. The internship supervisor doled out to investigate the Loan disbursement and Recovery of Sonali Bank. I have tried to find out how the association functions and run their activities.

I feel lucky to have the opportunity to work in Sonali Bank Limited, Loan and Advance Department. Through this internship an individual can expect to have a good knowledge and understanding on the various methods of operation performed by Sonali Bank Limited particularly in the area of Financial Institutional Services.

1.3) Objectives of the Study:

The study has been carried out with the following objectives.

- To identify the credit products of Sonali Bank Limited, NCTB Branch;
- To explain credit appraisal of Sonali Bank Limited, NCTB Branch;
- To explain the loan disbursement of Sonali Bank Limited, NCTB Branch;
- To describe the recovery system of Sonali Bank Limited, NCTB branch;
- To identify the problems related to credit management of Sonali Bank Limited, NCTB Branch;
- To make recommendations to solve the problems;

1.4) Methodology of the Study:

Methodology is way to systematically solve the research problem. It refers to the essential part of internship report. It is designed in a way so that it correspondent to achieve the objectives of the study. Here I attempted some consecutive technique and method for exercises to finish with this report effectively. Here while doing the report I gather information from various sources.

Sources of Data:

There are two manners by which I gathered the data.

Primary Data: I have collected data with the assistance of the organization chief. I have discussed face to face with the relevant officials. Practical hand -on experience of working at the credit and recovery department. I have collected the by group discussion, personal observations, organizational culture, internal process of liquidity, different statistical sources, measurement and analyzing.

Secondary Data: I have collected auxiliary data from various sources. These sources are specified beneath:

- Experiences website.
- Profile of Sonali Bank Limited.
- Unpublished data (daily, monthly, yearly statement, ledgers).
- Annual report.
- Different textbook.
- Circular and newsfeed of Sonali Bank.

1.6) Scope of the Study:

Internship experience play a vital role for every student to implement their theoretical knowledge and get practical knowledge from any organization. One can use their internship experience in his or her future job life. Sonali Bank Limited gave the opportunity for gathering practical experiences. In this report overall loan and advance system, its mechanism, policies, uses, risk, recovery and other activities are extensively analyzed. And findings are clarified along with depth study. This study focuses mainly loan disbursement and recovery system of Sonali Bank Limited, NCTB branch. So, loan disbursement and recovery system of Sonali Bank Limited, NCTB branch is covered in this report including analysis of loan, loan related product, risk, risky area, disbursement, recovery, their financial placement.

1.7) Limitations of the Study:

In undertaking this report, a number of limitations were faced. The limitations are.

- The main constrain of the study was insufficiency of information's which was required for the study. There is various information the bank employee cannot provide due to securities and other obligations.
- Due to the time limitation many of the aspect cannot be discussed in this report. Learning all of the functions is very tough within just 90 days.
- As the sample size is very small regional and graphical differences could not be included. Because of lake of past experiences, adequate energy could not be invested.
- Troublesome in collecting correct data and information was one of the big problems.

Chapter-2

Organizational Profile of Sonal Bank

2.1) Historical Background of the Branch

Soon after independence of the country Sonali bank emerged as the largest commercial and leading nationalized commercial bank of Bangladesh by proclamation of Bank's nationalization order 1972(presidential order-26). As a fully stated -owned bank the bank had been discharging its nation building responsibilities by undertaking government entrusted different socio-economic schemes as well as money market activities of its own volition covering all spheres of economy. The bank has been converted to a Public Limited Company with 100% ownership of the government and started functioning as Sonali Bank Limited from November 15 2007 taking overall assets, liabilities, and business of Sonali bank Limited.

Sonali bank Limited is governed by board of directors. The bank is headed by Chief executive Officers and Managing Director who is well- known banker and a reputed professional. The corporate head quarter of the bank is located at Motijheel, Dhaka, Bangladesh and the main commercial center of the capital.

There are total 1215 branches of Sonali Bank Limited in Bangladesh. From which 123 branches are situated in Dhaka. NCTB branch is one of the important branches of Sonali Bank Limited. It is situated at 69-70 Motijheel in Dhaka. Mr. Golam Mohiuddin is the Assistant General Manager (AGM) and Mr. Anowar Hossain is the Principal of the NCTB Branch.

2.2) Features of Sonali Bank Limited, NCTB Branch:

Sonali Bank sincerely enjoys the prestige of being the agent of the central bank of Bangladesh in such places where the guardian of the money market has been chosen not to act by its self.

Some notable features of Sonali bank:

Rank : 1

Capital Structure:

Authorized Capital : Tk. 6000.0 crore

Paid Up Capital : Tk. 3830.0 crore

Branches and Subsidiaries:

Total Branches	: 1215
Branches in urban areas	: 745
Branches in rural areas	: 467
Overseas Branches	: 2
Subsidiaries Branches	: 3
	a. Sonali Investment Limited
	b. Sonali Bank UK Ltd, London.
	c. Asset Management Arm.
Representative Office	: 3 (Jeddah, KSA), (Riyadh, KSA), Kuwait.
Correspondent	: 581

2.3) Mission & Visions:

Vision:

- Socially committed leading banking institution with global presence.
- To be the best commercial bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management, and profitability having strong liquidity.

Mission:

- Dedicated to extend a whole range of quality product that support divergent needs of people aiming at enriching their lives, creating value for stakeholders and contributing towards socio-economic development of the country.
- To build Sonali bank limited into an efficient, market driven, customer focused institution with good corporate governance structure.
- Cost reduction through integration of technology at all level.

Slogan:

Your trusted partner in innovative banking.

2.4) Corporate Profile:

Name of the company	: Sonali Bank Limited
Chairman	: Mr., MD. Ashraful Mobul.
CEO & Managing Director	: Mr., MD. Obayed Ullah Al Masud
Company secretary	: Mr., A.K.M. Sajedur Rahman Khan
Legal Status	: Public Limited Company
Genesis	: Emerged as Nationalized Commercial Bank in 1972 following the Bangladesh Bank (Nationalization) Order No, 1972 (PO No-26 of 1972).
Date of Incorporation	: 3 June, 2007
Date of Vendors Agreement	: 15 November 2007
Registered Office	: 35-42, 44 Motijheel Commercial Area, Dhaka, Bangladesh.
Number of Branches	: 1215
Phone- PABX	: 9550426-31, 33, 34, 9552924
FAX	: 88-02-9561410, 9552007
SWIFT	: BSONBDDH
Website	: www.sonalibank.com.bd
E-mail	: itd@sonalibank.com.bd

2.5) Core Values of SBL:

Core Values:

Core values are the fundamental belief of a person or an organization. These guiding principles dictate the behavior and can help an organization understand the right and wrong for the organization. Core values also help organization to set goals and determine the appropriate steps for achieving the specified goals.

Center estimation of Sonali Bank Limited are entirely kept up by each worker and incase of money related dealings. Sonali Bank Limited activities



Figure: Core Values of Sonali Bank Limited

Chapter-3

Products of Sonali Bank Limited

3.1) Products and services of Sonali Bank:

Banks and credit unions can provide a safe and convenient way to accumulate savings – and some banks offer services that help one person manage the money. Products and services of Sonali Bank Limited are:

Products:

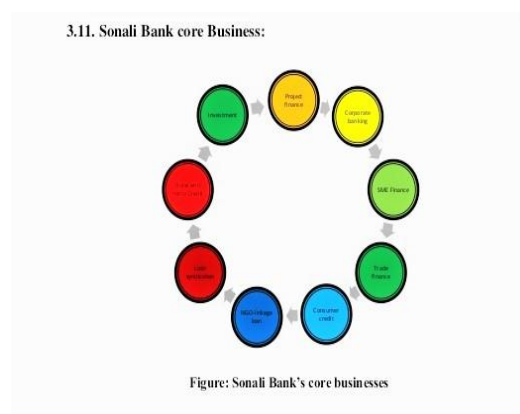
1. Personal banking – transfer of fund, locker, issuance of payments.
2. Rural credit – rural development loans.
3. International banking – letter of credit, bid bond, correspondent banking relations.
4. Industrial banking – pharmaceuticals industry, textile and garments, power generating plant.
5. Import products - Xining mill, garments accessories, washing plant, and packaging, washing plants.
6. Exports products – Fringing plant for fish, tanaree business, and export furniture.

Services:

1. Online Banking – Foreign remittance, Atm, Swift.
2. Ancillary Services - utility bills, hajj deposit, land development tax, govt and non-govt.
3. Teachers Salary.

3.2) Business Overview Of Sonali Bank Limited:

Primary area or activity that a company was founded on or focuses in its business operations. Many firms aim to maintain a strong position in their core business areas. Core business of Sonali Bank Limited are given below:



Chapter- 4

**Loan Disbursement and
Recovery of Sonali Bank
BCTB Branch**

4.1 Loan Disbursement and Recovery:

Loan:

A loan is the lending of money by one or more individuals, organizations, or other entities to other individuals, organizations. The recipient (the borrowers), incurs a debt and usually is liable to pay interest on that debt until it is repaid and also to repay the principals amount borrowed.

The interest provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants. Although this article focuses on monetary loans, in practice any material object might be lent. Bank credit is an important catalyst for bringing about economic development of the country. Now the question may gradually arise – how the bank will pay interest to the client- the simple answer is-advance.

The reasons why bank provide loan to the borrowers –

1. To earn interest from the borrowers and give the deposit interest back.
2. To accelerate the economic development by providing different industrial as well as agricultural advances.
3. To create employment by providing industrial loans.
4. To pay the employees as well as the interest groups.

Credit is continuous process. Recovery of one credit gives rise to another credit. In this process of revolving of funds, bank earns income in the form of interest. A bank can invest its funds in many ways.

Loan Disbursement:

The act of paying out or disbursing money. A disbursement is the actual delivery of funds from a bank to other funds. It is the payment made by a company in cash or cash equivalents during a set of time period. Examples of disbursement include money paid out to run the business. Disbursement comes in many forms: any payment by cash, check, voucher or outlay is considered as a disbursement. The more technical use of disbursement is usually referring to financial aid or professional financial services. Disbursing money is a part of cash flow. If cash flow is negative means that disbursement is higher than revenues it can be an early warning of potential insolvency.

Financial accountants keep a cash

Disbursement journal to record all of the company's expenditure. This journal helps to identify destination of cash outflow and potential tax write-offs.

Certain businesses utilize a cash management technique known as "remote disbursement" to manipulate the Federal Reserve's check clearing system. When executed properly remote disbursement allows a company to earn a small amount of additional interest on its deposit accounts.

Disbursement are the cash flows, dividend payments, purchase from an investment accounts and even spending cash are all considered as disbursement.

Loan recovery:

In finance the term Recovery refers to the collection of amounts of due. Recovery plan is one of the components of performance plan. It is a future intended action in respect of recovery. It is a conscious and deliberate effort to recover all current dues and overdue loans.

4.2) Different Categories of Loan:

Loan are categorized on the following basis.

1. On the basis of security
2. On the basis of time
3. On the basis of classification.

On the basis of security:

On the basis of security loan is classified into two categories.

A) Secured Loan:

A secured loan is a loan in which the borrower pledges some asset (e.g. a car or property) as collateral for the loan, which then becomes a secured debt owed to the creditor who gives the loan. The debt is thus secured against the collateral and if the borrower defaults, the creditor takes possession of the asset used as collateral and may sell it to regain some or all of the amount originally loaned to the borrower.

B) Unsecured Loan:

Unsecured loans are monetary loans that are not secured against the borrower's assets. These may be available from financial institutions under many different guises or marketing packages:

- Credit card debt
- Personal loan
- Bank overdraft
- Corporate bonds
- Peer-to- peer lending

On the basis of time:

There are many public, private and foreign banks in Bangladesh. Every bank has own Loan policy and pan for selling their loan. But all banks loan activities are become Monitoring by Bangladesh bank so better monitoring loan sector is classified are as Following:

1. Continues loan:

The loan Accounts in which transactions may be made within certain limit and have an expiry date for full adjustment will be treated as continuous loan. These are advances having no fixed repayment schedule but have a date at which it is renewable on satisfactory performance of the clients. This loan is given to the businessmen. It is a continuous lending facility. Borrower is allowed to borrow money up to a certain limit and can't withdraw the sanctioned amount at once. They are to keep mortgage against loans. Interest is charged on the withdrawal only. Examples are – CC, OD etc.

2. Term Loan:

A Term Loan is simply a Loan from a bank or other financial institution that has a specified principal amount (unlike a credit card) and a set repayment schedule with a fixed maturity date, when the loan must be paid back in full. This loan is set up where the borrower has an agreed-upon length of time to repay a loan. Term loans also generally have a variable or floating interest rate. The majority of term loans will mature within a 10-year time period. The term loan is one of the most common forms of loan. All though term loans are not exclusive to businesses, the word itself is more commonly associated with business loans. Term loan mainly include CCS, hire purchase, and staff loan.

- Long term – repaid over a (more than 1 year) fixed maturity period and interest rate. Doctors Loan, Service Loan, Consumers Loan, Loan General, Project Loan.
- Short term - A loan scheduled to be repaid in less than a year.
- Short term Micro -credit- will include any micro-credits for less than Tk.50,000/= and repayable within less than 12 months, be those termed in any names such as Non-agricultural credit, Self-reliant Credit.

3. Demand Loan:

The loan that becomes repayable on demand by the bank will be treated as demand loan. If any contingent or any other liabilities are turned to forced loans (i.e. without any prior approval as regular loan) those too will be treated as Demand Loans. Such as: Forced Loan against Imported Merchandise, Payment against Document, Foreign Bill Purchased, and Inland, Bill purchased etc.

On the Basis of Classification:

1. Classified Loan:

The loan account is not performing satisfactory in the terms of installments and overdue is occurred. These types of loan need close monitoring to stop the deteriorating position.

A) Substandard:

The main criteria for a substandard advance are that despite these technicalities or irregularities no loss is expected to be arise for the bank. These accounts will require close Supervision by management to ensure that the situation does not deteriorate further.

B) Doubtful:

This classification contains where doubt exists on the fully recovery of the loan and advance along with along is anticipated but cannot quantifiable at this stage.

C) Bad & Loss:

A particular loan and advance fall in this class when it seems that this loan advance is not Collectable or worthless even after all security has been exhausted.

Substandard	Doubtful	Bad & Loss
3 months and above but less Than 6 months.	6 month and above but less Than 12 months.	Not recover within more than 12 months

2. Unclassified Loan:

The loan account is performing satisfactory in the terms if its installment and no overdue is occurred. SME, consumer financing, Housing Finance and Loans for Professionals to set up business under Consumer Financing Scheme, loans to brokerage House, Merchant Bank, Stock Dealers etc.

4.3) Types of loan offered by the Sonali Bank Limited:

1. Secured Overdraft (SOD)
2. Cash – Credit (CC)
3. Small loan
4. Industrial Loan
5. Commercial Loan
6. Consumer Loan
7. Staff loan.
8. House building loan
9. Agricultural loan.
10. SME Loan
11. Rural Credit

1. Secured Overdraft (SOD):

Secured overdraft is a continuous advanced facility. Under this facility, customers are allowed to overdraw from his current account up to his credit limits sanctioned by the bank. The interest is charged on the amount withdrawn from the account only, not on the

sanctioned amount. Sonali bank sanctioned SOD against different security. Based on different types of security, we can divide SOD in the following categories-

SOD (General): This type of over draft is allowed to the individuals against. Financial Obligations i.e. lien of FDR or defense savings certificate ICB unit certificate etc.

SOD (Others): This type of over drafts is allowed against assignment of advance is generally allowed for a specific purpose. It is not a continuous loan.

SOD (Export): This type of over draft is allowed to purchasing foreign currency to make payment against L/Cs where the exporter cannot materialize before the date of import payment.

2. Cash Credit (CC):

Cash Credit (CC) is an arrangement by which a banker allows his customer to borrow money up to a certain limit for meeting the working capital requirements of existing industries. It is operated like overdraft account. The borrower withdraw cash from his/her CC account and depositing money, he can adjust his loan account Sonali Bank charges interest on the daily balance basis in the account. Depending on charging security there are two forms of cash credit-

Cash credit (Hypothecation): Hypothecation is a legal transaction whereby goods are made available to the lending banker as security for a debt without transferring possession of goods.

Cash Credit (pledge): Pledge is the bailment of goods as security for payment of a debt or performance of a promise. In a contract of pledge, the borrower (pledge) must deliver the goods pledged to the pledge (Pawnee) either actually or constructively.

3. Small loans:

It refers to the lending allowed to small traders; cottage industries, small- scale industries and self-employed persons. The maximum ceiling for this loan is at present tk.5000.00 for small traders and self-employed persons, tk.2, 00,000.00 for cottage industries and small-scale industries. Such loans are generally productive/ development oriented rather than security oriented & this is the way of emphasis in these cases is on the purpose of the advance as well as skill reputation capacity of the borrower. The security requirements are substituted the end-use and frequent supervision of the credit.

4. Industrial Credit:

Sonali Bank's services are paying attention towards the entrepreneurs in the minor industries sector. A minor industry has been defined as an industrial activity whose total fixed investment is less than Tk.100 million. The industrial loan imitated a major growth of 22.5 % over the previous year. Total outstanding industrial loans including Agri-based industry, RMG, Textile, Ship Building, Ship breaking & Other Manufacturing Industry stood Taka1359.29 Core at the end of 2012.

5. Commercial Credit:

Sonali Bank also funds expansion of business trade, and other commercial actions in the country. All services to the importers and exporters ranging various facilities such as cash credit, export cash credit, short term loans, packing credit, and foreign and local bills purchase facilities are covered by it.

6. Consumer loans:

The main purpose of the scheme is to improve life standard of the consumers by providing them loans for purchasing house hold items, for example, computer, television, freeze, motor car & cycle, air- condition & cooler, furniture etc. Various commercial banks offering various types of loans to the consumer so that they can enjoy these innovations and fixed a very easy installment process to repay that money.

7. Staff Loan:

Staffs of Sonali Bank are provided with 'Staff Loans' for buying motorcycles and bicycles, for wedding of their sons or daughter etc. Bank provides this advance facility under installment system. The amount of loan is recovered from their monthly salary.

8. House building loans:

Sonali bank provides long term advances for building residential house. Advances for construction of residential houses against real estates as primary securities as allowed by banks up to tk.5.00 lacks per party (including cost of land) minus any loan taken from HBFC for these purposes. The rate of interest for 'house Building Loans' is 16% per annum and maximum repayment period is 12 years. In such cases, parties have to pay down payment of 30% of the total amount and rest of the amount should be repaid within 2 years.

9. SME Loan:

Sonali Bank Limited emphasizes highest priority on SME financing for eliminating poverty by increasing SME loan flow at economically underdeveloped area and peoples. Setting up priority base SME credit Policy for Women and underprivileged entrepreneurs, Sonali bank working for the improvement of their socio-economic condition. The loan limit is 50,000 – 500000tk. The rate of interest is 9%.

Basis for Loan Classifications:

- A) Objective Criteria
- B) Qualitative Judgment

A) Objective Criteria:

Past Due/Over Due –

- i. Any **continuous** &
- ii. **Demand loan** not repaid/renewed within the fixed expiry date for repayment or after demand by bank will be treated as past due/ overdue from the following day.
- iii. Any **installment(S)** of a **Fixed Term Loan** is not repaid within the fixed expiry date the amount of unpaid installment(S) will be treated as past due/ overdue from the following day.
- iv. **Short-term Agricultural & Micro Credit** is not repaid within the fixed expiry date will be treated as past due/ overdue after 6 months of the expiry date.

B) Qualitative Judgment:

If any situational changes occur in the stipulations in terms of which the loan was extended.

- If the capital of the borrower is impaired due to adverse conditions
- If the value of the securities decreases.
- If the recovery of the loan becomes uncertain due to any other unfavorable situation, the loan will have to be classified on the basis of qualitative judgment.

- Besides, if any loan is illogically or repeatedly re-scheduled or the norms of re-scheduling are violated.

- Instances of frequently exceeding the loan-limit are noticed. Legal action is lodged for recovery of the loan. The loan is extended without the approval of the proper authority, it will have to be classified on the basis of qualitative judgment.

4.4) Loan Monitoring:

Loan monitoring implies that the checking of the pattern of use of the disbursed fund to ensure whether it is used for the right purpose or not. It includes a reporting system and communication arrangement between the borrower and the lending institution. The following steps are followed by respective officer.

- Regular checking the balance of SB/CD/STD accounts of the borrower.
- Regular communication with the defaulter customers and guarantors physically over telephone.
- Issuance of letter to customers immediately after dishonor of cheque.
- Issuance of legal notice to the defaulter customers and guarantors prior to classification of the loans.
- Issuance of appreciation or greeting letter to the regular customers.
- Periodical visit with the customers to maintain relationship and supervision of supplied articles.
- Legal action to be taken after failings all possible efforts to recover the bank's due.

4.5) Principles of sound lending:

It is necessary to develop a sound lending principle and modern lending techniques to ensure the performances of the credit provided by the bank. Credit is very much dependent on the judgment of the sanctioning authority. Banker's ability in taking proper prior measures to minimize the risk is very important. To do this a Bank must follow the "Guiding Principles of Sound Lending" which include:

1. Principle of Safety:

The first lending Principle of sound lending is safety. The very existence of a bank, depends upon the safety of its advances. Safety should not be sacrificed for profitability. So utmost care should be exercised to ensure that the funds go to the right type of borrower, are utilized in such a way that they remain safe and the repayment comes in the normal course.

2. Principle of Purpose:

The Bank should not lend money for any purpose for which the borrowers demand loan, the purpose should be productive. So, another important point to be considered by a credit officer before lending is the purpose for which the loan is required and also the resources through which the borrower is expected to repay.

3. Principle of Liquidity:

The banker while making advance must see to it that the money lent is not locked up for a long time because, majority of Bank's liabilities are payable either on demand or after short notice. So, the banker should make sure that the loans are liquid enough to meet the banks liability structure. Liquidity means availability or readiness of bank funds on short notice. The liquidity of advance means its repayment on demand on due date or after a short notice. The loan must have fair chances of repayment according to repayment schedule.

4. Principle of Security:

The security offered by a borrower for an advance is insurance to the banker. It serves as the safety value for an unforeseen emergency. So, another principle of sound lending is the security of lending. The security accepted by a banker to cover a bank advance must be adequate, readily marketable, easy to handle and free from any encumbrance.

5. Principle of Profitability:

Commercial Banks obtain funds from shareholders and if dividend is to be paid on such shares it can only be paid by earning profit. Even in the case of public sector banks although they work on service motive, they also have to justify their existence by earning profit. This is not possible unless funds are employed profitably. So, the fund should be employed in reliable and profitable sources, but for the sake of profitability, the other principles safety and liquidity cannot be sacrificed.

6. Principle of Diversification:

The advance should be as much broad based as possible and must be in conformity with the deposit structures. The advances should not be in one particular direction/ industry/ activity

or one or few borrowers because adversity faced by that particular industry will have serious adverse effect on the bank.

7. Principle of National Interest:

The development of banking has reached a stage where a banker is required to identify his business with national policies. Banking Industry has significant role to play in the economic development of a country. So, the savings of the people which are mobilized by banks must be distributed to those sectors which require development in the country's Planning Program.

Creditworthiness of a borrower:

A) Character:

- To determine whether the borrower has a responsible attitude towards borrowed funds and whether he will have every effort to repay what is owed.
- Responsibility, truthfulness, serious purpose, and serious intention to repay loans make up the characters of the borrower.

B) Capacity:

- Whether customer requesting loan has the authority to request loan and have the legal standing to sign loan agreement and documents.

C) Economic Condition/ Assets:

- Whether borrower has sufficient assets to repay the loan.
- Other loans and liabilities of the borrower.

D) Credit history/Credit habit:

- Whether loans borrowed by the customers previously and how those earlier loans were handled.
- Whether there is any loan default earlier.
- Whether legal action has ever been taken against him for recovery of default loan.

E) Credit Rating:

- Credit Ratings of the borrower by credit rating agencies.

4.6) Loan Proposal and Sanction Process:

Loan Proposal:

The total process of proposal and sanction is a continuous process. In a particular stage the describe loan is sanctioned or rejected by the authority. The total process consists maximum of 6 steps:

Step 1- the client applies for a certain amount of loan in a prescribed form which is available in the branch office. He has to mention the amount; the purpose, the mortgage property that he can assure and the time when he wishes to enjoy the amount.

Step 2- The branch manager and the cashier then take the responsibility to visit and evaluate the concern. They have to prepare a credit report mentioning the present condition, assets and liabilities ratio, and reputation along with the origin of the concern. He should be some recommendation about the dependency of the firm.

Step 3- Then the credit report is forwarded to the original office for approval. In the regional office two dealing officer under the direct supervision of AGM made some other recommendations by considering the credit report and direct investigation. Then they will justify the net worth of the concern and its economic position.

Here if the amount is within the ability of the regional head (AGM) he can sanction the loan. Otherwise the proposal file will be forwarded to the principal office. If the dealing officers found something dissatisfied, they can reject the proposal.

Step 4- The head of the corporate branch (DGM) can sanction a certain level of amount greater than the regional office. Here the file is strictly observed by the dealing officers under the direct supervision of DGM. He may sanction the mentioned amount or reject for the logical cause or send to the GM office or Head office for the further consideration.

Step 5- After reviewing every aspect of the loan proposal the GM can approve the proposal up to certain level. He may reject or send the file to the managing director for the director's approval. Here it may be sanctioned or rejected.

Step 6- After the approval of the proposal in any of the stage region to the board of directors. Bank send the proposal file along with the necessary papers of the mortgage and to verify the validity of the ownership of the property for a little dissatisfaction of the solicitor the proposal may be rejected. Otherwise he will request the bank to disburse the amount.

Loan Disbursement Procedure:

Before disbursement of loan bank must go through some selection process. These processes are given below:

- Security Selection
- Assessment of the borrower
- Visit Business
- Fund requirement analysis.

Borrower Selection:

Select suitable borrower from pool of borrowers. This includes borrower's present and past business information, nature of borrower, and ethical value of the borrower. This information gives us entity's historical business information and nature of borrower whether he might default or not. Therefore, lending banker should analyze 5C of borrower- Character, Capacity, Capital, Collateral and Condition.

Security Selection:

Selection of collateral security is as important as disbursement of loan. Proper selection of security gives bank an upper hand when borrower may default. The banker should consider lending principles. These are- Safety, Security, Liquidity, Profitability, Purpose, National Interest, Diversity.

Assessment of the borrower:

Proper assessment of borrower gives us solid information of the borrower. It helps bank to sensation loan to worthy borrower. In assessment of Brower bank should go through selection of loner. For assessing attitude, Skill, Achievement needs, Knowledge etc.

Visit Business:

Visiting business gives us valid information about the business, its prospect and field evaluation of security. Bank's own record, borrowers' loan application, spot verification, reports from friends & relatives' other sources.

Credit proposal appraisal:

- The following have to be considered for these feasibility testing-
- Location, land & building, product, raw material

- Profitability, cost, demand of sales
- Cash flow, income statement
- Planning, organizing, marketing etc.

Sanction Letter:

After getting the approval of the HO the branch issues sanction letter to the borrower. A sanction letter contains:

- Name of borrower
- Facility allowed
- Purpose
- Rate of interest
- Period of the Investment and mode of adjustment
- Security and Other terms and condition

Documentation:

If the borrower accepts the sanction letter, the Documentation starts. Documentation is a written statement of fact evidencing certain transactions covering the legal aspects duly signed by the authorized persons having the legal status. The most common documents used by the Janata Bank for sanctioning different kinds of Investment are:

- Joint Promissory Note
- Letter of Arrangement
- Letter of Disbursement
- Letter of Lien
- Letter of Ledge
- Letter of Mortgage
- Letter of Hypothecation

Disbursement:

After sanction and completion of all formalities the respective officer disburses the loan. The officer writes cheque and provides it to the borrower. For this borrower has to open an account through which he/she can withdraw the money.

4.7) Loan Recovery:

It is the duty of the Bank to recover the landed fund within the stipulated time and if the borrower fails to repay the money within the said period Bank will declare him as a defaulter and recover the fund by selling the securities given by the borrower or by freezing his account or make a suit against him.

Recovery Rate:

Comparative Recovery Rate of Loans:

In banking surroundings no prize can be anticipated without risk. Considering the present non-performing loan position of the country, Sonali Bank Ltd. is very much careful about its asset. Every loan suggestion is positioned under cautious inspection before sanction. Recovery team and internal audit team implement close monitoring on every loan transaction. All out efforts were made to pick up the recovery rate and manage of non-performing loans and advance.

How Sonali bank recover their Loans:

When Sonali Bank sanctions loans and advances to its customers, they clearly state the repayment pattern in the loan agreement. But some credit holders do not pay their credit in due period. The public banks have to face this sort of problems. This situation is also found in Sonali Bank. To overcome the problem of overdue loan, the bank has taken particular loan recovery programs.

Recovery Programs taken by Sonali Bank Limited:

- Establishing credit supervision and monitoring cell in the bank
- Re-structuring the loan sanctioning and distributing policy of the bank
- Sanctioning loans and advances against sufficient securities as best as possible
- Giving more powers to the branch manager in credit management decision making process
- Offering a package of incentives to the sound borrowers
- Giving more emphasis on short term loans and advances
- Imposing restrictions on loans and advances for sick industries
- Taking legal actions quickly against unsound borrowers as best as possible within the period specified by the law of limitations.

Recovery Patterns of Loan & Advances:

Generally, Sonali bank sanctions loans and advances to every sector of an economy. Before going into details of recovery performance, we have to be familiar with some terms used in recovery performance:

Disbursement: highest outstanding balance on any date during the reporting period minus outstanding balance at the end of the preceding period.

Demand for recovery: overdue at the end of the reporting period plus recovery during the reporting period.

Recovery: highest outstanding balance on any date during the reporting period minus outstanding balance at the end of the recovery period.

Outstanding: Outstanding figures in the ledger at the end of the reporting period.

Overdue: Demand for recovery minus recovery.

Problems in Loan Recovery:

Sonali Bank is carrying out better in managing loan and advances, still 12.39% of total loan and advances are classified. There are a lot of causes for which the loan recovery of the bank is still now faulty. In most cases, problems may be raised from sanctioning procedures of loan, investigation of the project, and investigation of the loans etc. that is, the problem in loan recovery proves the outcomes of the default process in loan disbursement. The main reasons of poor loan recovery are describing as follow:

- Changing of management shapes may delay the recovery of mature loan.
- The banks sometimes sanction loan to the losing concern for further improvement of the respective sector, but in maximum cases, they fail to accomplish progress.
- The cost of production is high and the quality of goods is not of required of standard. As a result, they become the losing concerns and the amount of bad loan increases.
- There are many companies which increase their business rapidly, but the development is for short time. In the long run, the amount of classified loan increases.
- Sonali Bank has also confronted many problems in the loan recovery process as a part of continuous pressure from various interested groups.
- Existing rules and regulations are lacking to cover the legal aspects of loan recovery. As a result, defaulters can get release easily from all charges against them.

- Frequent changes in government strategies in regard to recovery of loan.
- Before lending, Sometime Sonali Bank fails to properly analyze the business risk of the borrowers and the bank cannot predict whether the business will succeed or fail. If it fails to run well; the loan becomes classified.
- In some cases, bank fails to determine the value of security against the loan. As a result, if the loan becomes classified, the bank cannot recover its loan through the sale of mortgage.

4.8) Loan Risk Evaluation:

A comprehensive and accurate appraisal of the risk in every credit proposal of the Bank is mandatory. No proposal can be put on place before approving authority unless there has been a complete analysis. In order to safeguard Bank's interest over the entire period of the advance, a comprehensive view of the capital, capacity, integrity of the borrower, adequacy, nature of security, compliance with all regulatory /legal formalities, condition of all documentation and finally continues and constant supervision on the account are called for. It is absolute responsibility of the Credit Officer/RM to ensure that all the necessary documents are collected before the proposal is placed for approval. Where Loans/Advances Credit facilities are granted against the guarantee of the third party, that guarantor must be subject to the same credit assessment as made for the principal borrower. While making lending decisions, particular attention shall be given to the analysis of credit proposals received from heavily leveraged companies and those dealing in non-essential consumer goods, taking special care about their debt servicing abilities.

Emphasis shall be given on the following several loan principles:

- Present and future business potentiality for optimum deployment of Bank's fund to increase return on assets.
- Preference for self-liquidating quality business
- Avoiding marginal performers
- Risk depression is basic to sound credit principle and policies. Bank shall be careful about large and undue concentration of credit to industry, one obligor and common product line etc.
- Personal guarantee of the principal partners or the Directors of the Company shall be obtained.

4.9) Risk Area:

The following risk areas shall be considered for analyzing a loan proposal.

Borrower Analysis (Management/Ownership/Corporate Structure Risk):

The majority shareholders management teams and group or affiliate companies shall be assessed. Any issues regarding lack of management depth, complicated ownership structures or inter-group transactions shall be addressed, and risks to be mitigated.

The following questions may be asked to assess the Management Risk.

- Who is the borrower? Does any particular/special characteristic of borrower need particular attention. For example, if the borrower is a Trust, this calls for examination of Trust Deed
- Are there adequate abilities and experience in senior management?
- Is there adequate depth and succession planning?
- Is there any conflict amongst owners/senior managers that could have serious implications?
- Is the Manager/Credit Officer satisfied about the character, ability, integrity and experience of the borrower?

1. Industry Analysis (Business and Industry Risk):

The key risk factors of the borrower's industry shall be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces (demand supply gap) shall be addressed and the strengths and weaknesses (SWOT Analysis) of the borrower relative to its competition to be identified. For the above purpose the Credit Officers/RM may obtain/collect data from the statistical year book/ economic trends of Bangladesh Bank/public report/newspaper/journals etc.

The following questions may be asked to assess the Business and Industry Risk.

- Are there any significant concentrations of sales (by customer, industry, country region)?
- How does the borrower rate with its competitors in terms of market share?
- Can increased direct production costs be easily passed on to customers?
- Does the borrower deal in any specific product that may be subject to obsolescence?
- Is the purpose of borrowing consistent with the objectives of the Company?
- Is the purpose legal? Does it contravene any rules and laws of the country and any instruction?

1. Supplier/Buyer Analysis/Market Risk:

Any customer or supplier concentration shall be addressed, as these could have a significant impact on the future viability of the borrower.

2. Market Risk:

The sufficient market data is to be obtained to identify clients/borrower's market share in the industry/demand-supply gap in the market.

3. Technological Risk:

The product that is manufactured must be technologically viable i.e. whether the technology applied is updated. The product's stage in its life cycle must be understood. Technical Aspects of the products must be addressed. The Credit officer/ RM must be satisfied with the mitigating factors of technical and technological risk, associated with the products.

Security:

A current valuation of collateral must be made by Bank's approved enlisted surveyors and the quality and priority of security being proposed shall be assessed properly. Loan shall not be granted solely on security consideration. Adequacy and the extent of the insurance converge shall be assessed. The Credit Officer/RM must look into the client's interest/dependability on the collateral offered as security.

- Is security offered acceptable and adequate?
- Has all security been perfected in accordance with the loan application?
- Have any valuation and inspection been undertaken since the last application?
- If you hold guarantee, do you consider it has value?
- Has the credit rating of the Borrower deteriorated and have you considered the requirement for additional security?
- Can a valid charge be obtained on the security?

Chapter-5

Analysis of Loan Performance Of Sonali Bank

5.1) Performance in Loans and Advances of SBL:

Loan Performance of NCTB Branch:

Year	2014	2015	2016	2017	2018
Amount	402388.43	857183.34	847183.34	870808.34	1604676.34

Explanation: Total Loans and advances of the bank as on 31th December 2018 stood at TK.1604676.34 showing an increase of Taka 733868 from previous year 2017.

Classified Loan:

year	2014	2015	2016	2017	2018
Amount	86437	86849	109715	101715	102725

Explanation: The table above shows that during the year 2018 banks provide classified loan of Tk.102725 million. In 2015, Classified Loan was 86849 million but in 2016 it increases almost 22866 million takas compared to year 2015.

Industrial loan position:

Year	2014	2015	2016	2017	2018
Amount	14246.79	19124.12	23038.30	16395.02	30387.26

Explanation: Sonali Bank Limited has three types of nature of loans. Those are Large and Medium, Small and Cottage and W.C. Industries. Numbers of units are 698, 21152 and 1298 Respectively, Total 30387.26tk are given during 2018 as loans in overall industrial sector.

Unclassified Loan:

The entire Un-classified loan is included here. I have furnished below the loan and advance Position of Sonali Bank limited to comparison its progress for last five years.

Year	2014	2015	2016	2017	2018
Amount	804	814	897	105	1125

Taka in Million

Explanation: Here it can be observed from the chart that the Un-classified loans and Advances have been increased day by day and it recorded Taka. 1125 in the year 2018. Total 7481.1-taka BDT increases in one year.

Sector wise Loan performance:

Sector	2014	2015	2016	2017	2018
Agricultural	3904.00	4180.98	44620	41810	54622.01
Micro- Credit	1191.40	1221.84	12182	12218	22180.18
Industrial	6159.00	6512.98	71216	65130	81299.6
Agro-Based Industry	2752.30	2953.43	30848	29534	6284.80
International Trade	7594.60	7302.30	79655	72090	9965.53
SME	2565.09	4436.60	19181	17162	2918.15
General and Others	10678.01	12057.14	165516	149144	36778.91
Total	34844.40	38665.27	423218	384538	214049.18

Amount in Million.

Allocation of Loanable fund:

Particulars	Percentage
Trade & working capital	45%
Industries	25%
Small industries & various sector wise finance under Govt.	15%
Real estate & civil construction	5%
Agro-based financing	5%
Lease financing	3%
Consumer financing	2%

Explanation: Sonali Bank Ltd. allocates its loan able funds to the trade & working capital, industry sectors, small industries, and real estate & civil constructions works. And it is noticeable that it allocates its 45% loan to the trade and working capital, this is the largest amount of allocation among the others. The lowest allocation of its loan is only 2% for its consumer financing.

Loan Disbursement of NCTB Branch:

Lending Sector	Disbursement from 2014-2018				
	2014	2015	2016	2017	2018
General Loan	39945	41355	44559	38907	48591
Agriculture	23881	21933	27654	2751.10	35678
SME	15892	23567	38750	44678	53276
Industrial	559180	680567	778909	876540	56780
Lease finance	14520	24378	56740	55670	65490
Consumer Financing	80602	80324	89740	56890	32650
Total	230750	872124	1036352	1075436.1	292465

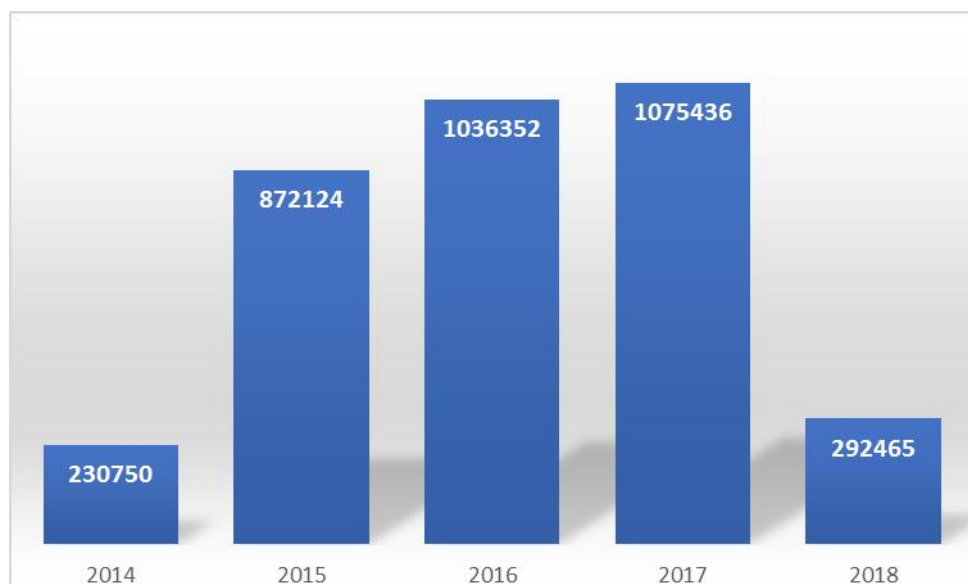


Figure: Loan Disbursement

Explanation: Above the graph shows the disbursement of NCTB Branch. Their highest disbursement was in 2017 that is 1075436 tk.

Loan recovery from disbursement:

Sector	Recovery from disbursement from 2014 - 2018				
	2014	2015	2016	2017	2018
General Loan	245.78	345.12	3854	2811	9670.01
Agriculture	338.90	436.01	674.90	751.70	876.02

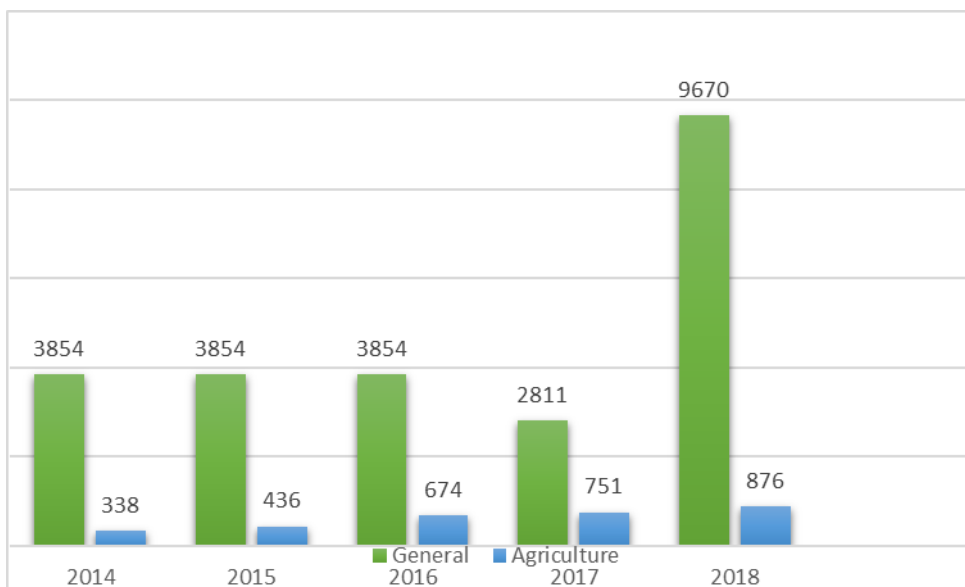


Figure: Loan Recovery of NCTB Branch

Explanation: Above the graph shows the loan recovery of general and agricultural sector of NCTB branch. From general sector the highest recovery was in 2018 and agricultural sector the highest recovery was also in 2018.

Chapter- 6

Problems, Recommendations And Conclusion

Problems Identified:

During internship program some important problems are found out. These problems are given below:

1. Un-classified loans and advances have been increased day by day. It's not good enough for the bank as the lender considerate as at high risk of default.
2. Sonali bank didn't maintain website properly. There are a lot of lake of proper information's. It creates problem for an intern to making the repots, a person who want know the information's.
3. The bank has little concern about the publicity and advertisement. As a result, most of the customers are unaware about the variety of loan products of the bank.
4. Sonali Bank Limited distributes loans without sufficient security and this is the violation of the Bangladesh Bank order.
5. Maximum amount of loan is provided to the long-term industrial sectors. They intentionally ignore the agriculture sector because of riskiness and safety issues. But the overall economic development of the country they should diversify their loan in different sectors.
6. They have lack of internet banking. So different activities are being time consuming.
7. They have huge over dues loan. And their recovery position is not enough developed.
8. They are not enough good in interacting with potential customer.
9. Employees are not properly skilled. For this work are being time consuming.
10. Their credit management for default culture not enough.

Recommendations:

Considering the customer queries and conversation with the general banking employees as well as credit departments employees and retail bankers, and after roaming the whole credit procedure and analyzing the credit condition it can be said that SBL has still many measures to take in managing the credit division more effectively and efficiently. After the whole discussion the following suggestions can be given that will be helpful to the bank to manage its credit operation better.

- They should consider unclassified loan properly. Actual un-classified must be maintained as this type of loan are increasing day by day. They must take steps to make unclassified in an average level.
- Sonali bank authorized should maintain website correctly as many people use this information for their purpose. But this must be done with proper security systems.
- They should focus on marketing more. This is the time of marketing. If they give more focus on marketing, they can do better. In this situation the need to promote diversity of loan products and advertising.
- Sonali bank must be more careful during giving loan. They must take enough security. They should check out the documentation system more cautiously. If they don't follow it, they may fall victim.
- Sonali bank should give more concentration on short-term industrial system. Micro-credit, SME, sector should be getting enough priority. After than overall, economy can be developed.
- Introducing internet banking. Overall, banking system should be more focused on using internet as worlds banking system fully depend on internet.
- For improving the recovery position and reducing huge overdue loans, first action needed to minimize political parties, influence to take necessary steps for repayment of defaulted loans within a limit.
- Emphasize on time to time visits to the customer's place of business rather than operating from the Bank. So that they can be able for building good relation with potential customer.
- More concentrate on loan and advance services. And use attractive promotion policy of their loan and advance products.
- Enough training program for employee at home and abroad. So that employee can be more skilled.

Conclusion:

From the overall perspective of the country, in accordance with recent transformation in the modern world, Bangladesh has to or needs to change accordingly. Even after a lot of obstacles, in Bangladesh, financial sector is expressing itself as the most positive one. Now by contributing in business, industry etc. banks are actively involved in making the economy vibrant. To cope with these new challenges, private commercial banks have to take effective steps. Government has already started to give necessary sanctions to specific sectors by providing lower interest rates. Moreover, to ensure foreign investment, government is trying to maintain law and order very strictly. So, the banks are optimistic about their future that they will be able to sustain any uncertainty. Sonali Bank Ltd. is providing consumer credit scheme, higher purchasing loan etc. to cope up with the new consumer world. Moreover, by providing syndicated loan, the bank is contributing to the infrastructural development of the country. Noticeably Sonali Bank Ltd. Is not concentrating only on taking deposit and lending money. Rather they are trying to 'diversify' their investments to small and medium enterprises also. By financing export import business Sonali Bank Ltd. is trying to keep balance of foreign currency. At the same time, by creating a lot of employment Sonali Bank Ltd. is helping to curb the unemployment problem in this country. Beside interbank money market, by exchanging several currencies; Sonali Bank Ltd. is continuously helping the economy to keep it vibrant.

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