

“Analysis of Credit Management System of Sonali Bank Limited: A Study on New Market Branch, Dhaka”



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To

Md. Arif Hassan
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Subject: Submission of the internship report on 'Analysis of Credit Management System of Sonali Bank Limited'

Sir,

With due respect I would like to notify you that as per our educational obligation for the sequence of Masters of Business Administration Major in Accounting from Daffodil International University, I am submitting my report on the 'Analysis of Credit Management System of Sonali Bank Limited'

However, I have collected all the evidences I could have tried my best to make it as much presentable. Despite its restriction, I sincerely hope that my report will meet the requirements that you set for me.

Sincerely Yours,

.....

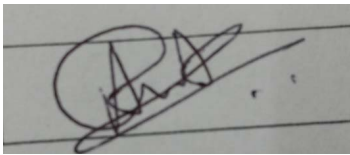
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Certificate of Approval

This is to certify that the report on 'Analysis of Credit Management System' is done by Md.SumanSarkeras a partial fulfillment of requirement of Masters of Business Administration (MBA) degree from Daffodil International University. The report has been carried out under my guidance and is record of the bona fide work that has been carried out successfully.

Md.SumanSarker bears a strong moral character and a very pleasing personality. It has indeed been a great pleasure working with him. I wish his all success in life.



.....
Md.ArifHassan

Assistant Professor
Department of Business Administration
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Acknowledgement

At first, I would like to thank Almighty Allah who gave me to prepare this term paper. This report has created a deal of interest to me.

Preparation of this report received assistance, guidance and took valuable time of many important and prestigious personalities. I would like to express my appreciation to my supervisor Md. Arif Hassan Assistant Professor Department of Accounting Daffodil International University of the Business Administration providing me the guidance and support that I needed mostly.

I would like to thank the authority of the Sonali Bank Limited, New Market Branch, for allowing me to do my report in this bank.

Executive Summary

Sonali Bank Limited is the biggest government marketable bank in Bangladesh with a total of 1212 branches. Out of them, 466 are located in urban areas, 744 in rural areas, and 2 are located overseas. It also operates the Sonali Exchange Company Inc. in USA and Sonali Bank (UK) Ltd., United Kingdom, to facilitate foreign exchange remittances. Sonali Bank Ltd is one of the commercial banks of Bangladesh. The main intention of the Bank is to provide all of banking services at the doorsteps of the people.

This report is projected to focus on the Credit Function of Sonali Bank as well as analysis of their performance in this department. I've collected data's from primary and secondary sources to enrich this report. This report contains several chapters in which I've drawn my study.

First chapter is Introduction part; in this chapter I briefly discussed Background, Rationale, Objectives, Scope, Methodology and Limitation of the report. Second chapter Consist of Background of Sonali Bank Limited That is company's profile, mission, vision, logo, ancillary services, organization chart. Third chapter which is Loans and Advances, Here I briefly discussed Loans, Advances, Loan Classification, Procedure of Loan, Loan Documentation, Loan Renewal, Loan Issue, Loan Issue Process, and Loan Recovery of Sonali Bank Limited. Fourth chapter is the most significant part where the credit performance are analyzed in details. After a thorough analysis it is found that the credit performance of Sonali Bank is not satisfactory. Fifth chapter includessome recommendations based on findings

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CHAPTER ONE

INTRODUCTION PART

1.0 Introduction:

Bank is an economic organization, which receives cash from its clientele as credit and contributes cash as loan to the debtors. The chosen bank is Sonali Bank Limited. From teaching the theoretical awareness is gotten from progresses of learning, which is only the half way of the topic matter. Practical awareness has no another. The perfect matching between theory and practice is of paramount importance in the context of the modern business world in order to resolve the contrast between these two areas.

Sonali Bank Limited is the biggest finance organization in Bangladesh, energetic in actions, honest in dealings, just in decision, fair in methods and devoted to high class service to clients and thereby donate to the growth of GDP of the country throughout motivating trade and business, boosting up transfer, poverty alleviation, raising living standard of narrow revenue group and overall sustainable socio-economic improvement in the country.

The internship report comprises a brief study on the Sonali Bank Narrow during three months internship. The report is distributed in many parts according to nature and requirement of institute and according to the instructions of supervisor of report.

1.1 Background of the Study:

The internship program is a compulsory requirement for the students who wish to be a MBA graduate. This internship report is organized as per internship requirement of my Masters of Business Administration (MBA) program of Daffodil International University. I worked 3 months Sonali Bank Limited (SBL), New Market Branch. This report organize on my practical knowledge on the day to day financevents, theoreticknowledge and under close management of my internal provision as well my official manager.

1.2 Scope of the study:

The field of my study was the New Market Branch of Sonali Bank Limited. The chance of the organizational part covers the organizational structure, background, objective, purpose, and departmentation and business performance as well as overall productivity of Bank as a whole. This refers that how the bank serve the customers and how it provide their various Banking services, what are its performances in the last Five years etc. all are on the project part of the report. Moreover this far evaluating the performance I kept my thinking on accounts, general banking, credit and advances, identification of problems regarding credit management, types of credit extended and foreign exchange only for this reasons my capacity is very small area.

1.3 Objectives of the study:

The Main objective of the education is to find out the Credit risk organization of Sonali Bank (SBL) Limited. There followings are the particular objectives:

- To evaluate the credit presentation of Sonali bank limited;
- To classifyparticular shortcoming recognized with the credit of SBL;
- To make some suggestions based on findings.

1.4 Limitation of the study:

The obtainable education was not out of limits. But it was a great chance for me to know the finance events of Bangladesh especially Sonali Bank Ltd. The education carried on has the following limitations:

- The key constraint of the study is inadequate access to evidence, which has hampered the scope of the investigation required for the learning.
- Lack of published resources.
- Some problems make mistakes regarding verification of data.
- It was very hard to accrue the information from numerous personnel for their job constraint.

CHAPTER TWO

AN OVERVIEW OF THE SONALI BANK LIMITED

2.0 About of the Sonali Bank Limited:

Sonali Bank Limited is the largest economic organization in Bangladesh, dynamic in actions, authentic in dealings, just in judgment, fair in approaches and devoted to big class service to customers and thereby contribute to the growth of GDP of the country throughout stimulating trade and business, boosting up export, poverty alleviation, raising living standard of limited revenue group and overall sustainable socio-economic development in the country.

2.1 CORPORATE PROFILE OF SBL:

Registered Name	Sonali Bank Limited
Known As	SBL
Category	Commercial
Date of Registration	1972
1st Branch	Motijheel Branch , Dhaka
Head Office	Sonali Bank Limited, 35-42 Motijheel C/A, Dhaka-1000, Bangladesh.
Phone-PABX	9550426-31,33,34,9552924
Fax	88-02-9561410,9552007
E-mail	itd@sonalibank.com.bd
Website	www.sonalibank.com.bd
Official Logo	
Chairman	Dr. A.H.M. HabiburRahman
CEO and Managing Director	Pradip Kumar Dutta
Number of Branches	1212

Number of Employee	21,839
Date of vendors Agreement	15 November,2007
Date of Incorporation	03 June, 2007

2.2 Objectives of Sonali Bank:

Sonali Bank has a severalkinds of Aims. Important aims of Sonali Bank are as follows:

- i.To collect of deposits
- ii.To secure deposit
- iii.To inspire savings
- iv.To control loan
- v.Toexpand trade and commerce

2.3Values of Sonali Bank Limited:

- Honesty
- Transparency
- Efficiency
- Accountability
- Reliability

2.4 SWOT Analysis of Sonali Bank:

SWOT analysis provides an opinion and adjustment whether organizations currently position is satisfactory or not.

Strengths:

- The number of branches (About 1204) throughout the country is more than any other bank in Bangladesh.
- Sonali bank limited has reached rural people in giving finance services.
- The number of depositor is more than other banks in Bangladesh.

Weaknesses:

- The directors in the management of Sonali Bank Limited have often been nominated politically who may not work for the betterment of the institute.
- The activities of bank are maintained manually in the most of the rural areas.
- People do not get better facility in government bank that they get in private commercial bank.
- Political effects have been worked in some cases in giving loans.

Opportunities:

- Sonali bank can collect deposit from rural areas that other bank cannot do because of their huge branches.
- Favorable business climate for commercial banks in the country in comparison with other business.
- The bank can introduce more innovative modern customer service to better survive in the competition.

Threats:

- Many banks offer different types of product that people like than Sonali Bank Limited.
- The employees take more time to work that people dislike, so their customers may decrease in future.
- Recently, Sonali Bank Limited suffers from confidence problem with clients that may limit customer's interest.

CHAPTER THREE

CREDIT MANAGEMENT ACTIVITIES OF SBL

3.0 What is credit?

Credit is usually defined in terms of the borrowing and lending of money. The most basic form is a loan granted to a borrower, who may be a consumer or a company. Credit can also take the form of a financial instrument that entails fixed payments determined up front and made over a set time period. (Hong Kong Institute of Bankers, 2012)

3.1 Credit Risk Assessment:

A thorough credit danger assessment must be conducted prior to the sanctioning of credit facilities. They must conduct necessary KYC (Know Your Customer) part on the customer and money laundering guidelines must be followed.

Following risk areas in the credit offer must be addressed and assessed before sending to Head Office.

1. Debtor Analysis:

- a) Share holding
- b) Reputation
- c) Learning

2. Manufacturing Analysis:

- a) Manufacturing Situation/Threat/Prospect.
- b) Danger issues pertaining to the manufacturing.

3. Supplier/ Buyer Risk Analysis

Concentration on single/few buyer/supplier is addressed.

4. Demand Supply situation
5. Technical feasibilities / Infrastructural facilities
6. Managing Groups Competence
7. Seasonality of demand
8. Debt to equity Ratio

9. Succession issue:

Margin, volatility of business, tall debt (Leverage / gearing), over stocking, huge receivables with long aging, rapid expansion, new business line, organization change, lack of transparency must be addressed.

3.2 Other Classifications:

Sonali Bank Ltd offers the following kinds of loan offered to the consumers. These are as follows.

- i. Farming loan.
- ii. Rural credit.
- iii. Manufacturing plan advance SME advance.
- iv. Agro base business plan advance.
- v. Minor cottage businesses advance.
- vi. Working capital advance.
- vii. Housing construction advance customer credit special minor advance.
- viii. Transfer import trade advance.

From the above dissimilar kinds of advances, I have described some of the advance on the basis of info.

3.3 House loan:

Housing building finance firm HBFC is the main organization to meet the requirement in the arena but Sonali Bank also complement to this area. Advances for creation of residential houses against real state as primary safeties as allowed by banks up taka 5 lacks per part (including cost of land) minus any loan taken from, HBFC for these purpose. Sonali Bank grant advances for constructions of profitable building also real states.

3.4 Farming Loan:

With the two augmented agricultural output, make employment chances generate revenue of the rural persons, Sonali Bank Ltd. Intensified its efforts to extend credit facilities to all sectors of rural population under numerous rural credit schemes, program and plan predefining agricultural and off forming events. Interest rate: 2%_10%

3.5 Credit section of the Sonali Bank Limited:

Credit sector is the heard of the backingevents, because the central bank profit comes from this sector. In the Sonali Bank Ltd. offer lot of loan side in the actual life and commercial life, such as auto loan customer loan, rural loan easy loan, pension saving scheme, education loan, diagnostic loan, defaults, and sometime consumer takes the loan and one or two payment will be but next time there are not payment their payment. So this is main fall of earning, this should be very care full procedure and the lindy procedure. Sometime take two or three month for work in this sector.

The following work in do in this section:

- 1) Advancecategories
- 2) Inforequisite for advancesector
- 3) Forms required for making the advanceoffer
- 4) Essential aspect of the advanceallowing
- 5) Credit creation
- 6) Stock evaluation of the consumer

3.6 Loan issue:

Required document:

- 1) Present subject trade license.
- 2) Tax receiving copy.
- 3) Property tax receiving copy.
- 4) Tax broad application for right paid tax.

3.7 Loan disputemethod:

- 1) Advance container application.
- 2) Bank application.
- 3) Advance suggestion ready by the bank (For Respective consumer)/ advance holder.
- 4) Stock assessment of the commercial product or the property (arranged by bank or the advance holder).
- 5) Enterprise valuation up 1 to 6 month.
- 6) Advance holder detail info.
- 7) Bank will be verifying the info.
- 8) Property confirmation.

CHAPTER FOUR

ANALYSIS AND FINDINGS

4.1 Performance in Loans and Advances of SBL:

Year	2013	2014	2015	2016	2017
Amount	343451	337554	346346	384538	423218

* TK in Millions

Explanation: Total Loans and advances of the bank as on 31th December 2017 stood at TK.423218million showing an increase of Taka 38680 million from previous year 2016. We see that the amount of loan is decreasing from 2013 to 2014 than increasing from 2014 to 2017.

4.2 Classified Loan of SBL:

Year	2013	2014	2015	2016	2017
Amount	103769	86437	86849	109115	149302

* TK in Millions

Explanation: The table above shows that during the year 2017 banks provide classified loan of Tk.149302 million. In 2016, Classified Loan was 109115 million but in 2017 it increases almost 40187 million taka compared to year 2016.

4.3 Overall Industrial Credit Position of the Bank:

SL No.	Nature of Advance	No. of Items	Amount sanctioned	Amount recovered	Outstanding
1.	Big&Middle	818	68742.30	45254.00	37861.10
2.	Small & Cottage	21174	10145.70	7511.00	1334.50
3.	W.C industries	1413	49234.40	38467.50	32420.30
	Total:	23405	128122.40	91232.50	71615.90

*Tk in millions

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 818, 21174 and 1413 respectively. Total 128122.40 million BDT sanctioned in loans. Among them 91232.50 million BDT recovered in process. Rest of the amount 71615.90 is outstanding.

4.4 Un-Classified Loan of SBL:

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	Un-classified Loans
2017	978
2016	897
2015	814
2014	804
2013	718

Tk 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 TK. 978million in the year 2017. Total 81 million BDT increases in one year.

4.5 Maturity Grouping of Loans and Advances:

Maturity Grouping Of Loans & Advances:	Year			
	2014	2015	2016	2017
Payable on demand	3405548876	1747959213	1687721001	3118683152
Less than 3 months	3559081157	5096323787	6606757999	2793065466
More than 3 months but less than 1 Year	3005957959	6178071000	7321575000	1630711751
More than 1 year but less than 5 year	4056616000	5422031129	6125833000	8991706291
More than 5 years	1183948223	2088744000	2936469293	1268864314
Total	<u>15211152215</u>	<u>20533129129</u>	<u>24678356293</u>	<u>17803030974</u>

***TK in million**

Explanation: Maturity Grouping of Loans &Advances shows that in year 2014 to 2017 is approximately commendable. Because loan payable on demand and loan which were less than 3 months and loan which were more than 3 months and loan which were more than 1 year and loan which were more than 5 year are matured in timely manner.

4.6 Sector wise Segregation of Loans and Advances:

Sectors	Year			
	2014	2015	2016	2017
Farming	62403000	420253000	133267000	202103000
Manufacturing	3615288000	8285260000	5459205000	8935153000
Construction	225422000	1119539000	140278000	2185413000
Water works	000	2538000	9878000	000
Vehicle&commu nique	355308000	342392000	339425000	831059000
Storage	68315000	4556000	4571000	7000
Commercial	6657270000	7987539000	6728604000	8529257000
Others	1866846487	2371163129	2395936225	3995364293
Overall	<u>12850852</u>	<u>20533129229</u>	<u>1521125222</u>	<u>24678356293</u>

*TK in million

Explanation: Statement of sector wise segregation of loans & advances shows that the loan given to the business sector was very much commendable also in the storage sector it was satisfactory. In the year 2017 in business sector SBL gave tk.8, 529,257,000 and in year 2015 in storage sector SBL gave tk.45,54,000 for the storage sector.

Also SBL contributed in the transport and communication sector, water sector and agriculture sector for the development of the country.

4.7 Geographical Location wise Loans and Advances:

Divisions	Year			
	2014	2015	2016	2017
Dhaka division	9934042076	13253009073	16852104972	21956627856

Rajshahi division	243454426	364349747	481604156	293040481
Chittagong division	4355211533	6097568519	6476016501	6440307181
Sylhet division	162539309	201796586	207997522	223131047
Khulna division	515904881	6164067214	660637242	700863728
Total	<u>15211152225s</u>	<u>26080799129</u>	<u>24678376293</u>	<u>29613970293</u>

*TK in Million

Explanation: Statement of geographical location wise loans & advances depicts that from the beginning of 2014 Dhaka division is preferred to other divisions. And gradually it was decreasing year after year. Sylhet, Khulna and Rajshahi divisions are not given sufficiently loan and advances for their proper development. And it indicates that SBL did not maintain a proper distribution of loan and advances to all the divisions of this Bangladesh.

4.8 Findings:

Based on the previous chapter, analysis segments and the brief description of Loans & Advances procedure and performance of Sonali Bank following findings are originated:

- Total loans and advances of Sonali Bank Limited (SBL) as on 31th December 2017 stood at TK.423218 million showing an increase of Taka 38680 million from previous year 2016.

- In 2017 banks provide classified loan of Tk.149302 million. In 2016, Classified Loan was 109115 million but in 2017 it increases almost 40187 million taka compared to year 2016.

- 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.

- Un-classified loans and advances have been increased day by day and it recorded TK. 978 million in the year 2017. Total 81 million BDT increases in one year.

- Credit recovery rate of SBL was 12% in 2016, but now it decreases to 8% in 2017.

CHAPTER FIVE

RECOMMENDATIONS AND CONCLUSION

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.

- Business services in remote areas and branches should increase.
- Responsibility should be taken to improve the performance of the Sonali Bank Credit Management.
- In this situation the need to promote diversity of loan products and advertising.
- The Bank should decrease the loan sanction time.

5.1 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 '23 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.

Reference:

- i) Annual report of SBL from year 2013 to year 2017
- ii) Web site of SBL, www.sonali-bank.com.bd/annual_report.htm.
- iii) www.google.com
- iv) <http://www.investorwords.com>
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