

An Internship Report  
On  
Credit Risk Management System  
of  
Janata Bank Limited:  
An Analysis on Mymensingh Notun Nazar Branch

Submitted To:

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**Date of Submission: 9<sup>th</sup> June 2014**

9<sup>th</sup> June 2014

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Assistant Professor

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**Subject: Submission of internship Report.**

Dear Sir:

This is my pleasure that I have completed my internship report and hereby ready to submit my report on “**Credit Risk Management System of Janata Bank Limited: An Analysis on Mymensingh Notun Bazar Branch**”. According to your instruction I have worked & analyzed the actual loan operation & credit management of JBL. I have really enjoyed the working environment of the JBL. I tried my best to present all those things that I have experienced over there while preparing my report under your supervision and guideline.

I have thoroughly enjoyed the overall work during my internship period which is carrying vast description of practical knowledge. This report along with all kinds of necessary information regarding the study is being submitted to you for your evaluation. I sincerely hope that you will appreciate my effort.

Sincerely yours,

**Md. Shah Kamal**

ID: 103-11-1670

BBA Program (27<sup>th</sup> Batch)

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# Declaration

I declare that the Internship Report on “**Credit Risk Management System of Janata Bank Limited: An Analysis on Mymensingh Notun Bazar Branch**”. Embodies the result of my own research works, pursued under the supervision of Mr. Mahbub Parvez, Assistant Professor, Daffodil International University.

I further affirm that the work reported in this report is original and no part or whole of this report has been submitted to, in any form, any other university or Institution for any degree or any other purpose.

**Md. Shah Kamal**

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# Certificate of Approval

I am pleased to certify that the Internship report on “**Credit Risk Management System of Janata Bank Limited: An Analysis on Mymensingh Notun Bazar Branch**”. Conducted by Md. Shah Kamal bearing ID No:103-11-1670 of the Department of Business Administration has been approved for presentation and defense/viva-voce. Under my supervision Md. Shah kamal worked with Janata Bank Limited as an intern.

I am pleased to hereby certify that the data and findings presented in the report are the authentic work of Md. Shah kamal. I strongly recommend the report presented by Md. Shah kamal for further academic commendations and defense/viva-voce.

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

Supervisor

-----  
Mahbub Parvez  
Assistant Professor  
Faculty of Business and Economics  
Daffodil International University

## **Acknowledgement**

This is my pleasure that I could successfully complete my internship report by the grace of almighty Allah. I want to convey my heartfelt respect and cordial thanks Mr. Mahbub Parvez, Assistant Professor, Daffodil International University, encouragement, guidance, advices and valuable supervision. I am very lucky for getting the opportunity to prepare this report under his supervision and guidance. Without his instruction, it was impossible for me to complete this report successfully.

I also articulate my heartiest appreciation to Khandaker Farid Ahmed (FAGM) Manager of Mymensingh Notun Bazar Branch. I am indebted to Md. Nazmul Haque Assistant Manager and Head of the Loan & Advanced Department of the Branch who provide required information, necessary assistance, valuable suggestion and advice through his long working experience and intellectual effort to prepare this report.

I have special thanks to Shamima Begum (Assistant Executive Officer), Sanchita Paul (Executive Officer), Ismat Ara (Assistant Executive Officer), and Debdas Roy (Assistant Executive Officer) of the Branch. Without their support I could not have meet to a complete form of this report. I would be remiss if I failed to acknowledge the unflagging support of our friends. To complete this internship successfully I anticipated my instructor's deep aspiration and assist.

The report in your hand is a product of a month long queries and involves many people's considerate attention to it. Without their kind helping the preparation of this report would not be possible. So I must pay gratitude to them.

## **Executive Summary**

Commercial banks lend money to different categories of borrowers for various purposes with a view to generating revenue. Accordingly, while processing and appraising a loan proposal, banks essentially analyze the information relating to borrowers, assess the purposes of loan and determine the viability of the loan proposal. If the proposal is sound and safe for lending, loan is sanctioned and disbursed. The report discusses about the management practices of different credit facilities, approval process, monitoring and performance of the bank under study. This report is categorized in seven different chapters. Firstly, The introductory of the study. Secondly, overview of the organization. Thirdly, Concept of Credit Risk Management. Fourth portion of this report is Credit Risk Management Process. Fifth the classified loans and Bangladesh Bank guidelines. Then the performance of Mymensingh Notun Bazar Branch JBL. Next discussion is the analysis and findings about different variables of Credit facilities. At the end, the report makes some valuable recommendations.

Janata Bank Limited is the second largest Government owned Bank. It operates credit facilities for business purpose as well as welfare of the economy. Bank finance at the rural level at a very low interest rate. It has also Special loan procedures for the rural farmers. This helps for the development of the rural economy of the country.

As a government owned bank, Janata Bank Ltd. faces different problems for credit facilities. But still it has more transparent Credit program than other government banks. It has improved its recovery program and this provide its operating profit 1244801.16 Crore in 2013 Year. For this research, the branch manager and credit officers of Janata Bank Limited, Mymensingh and Customers were treated as the target population. For survey a total of 12 variables were chosen. For every variable sample size was 10 by following random selection method. The research was a qualitative research. Janata Bank Limited invests more in industrial area than other sectors. It also invests in government selected 15 Trust sectors. It also invests in different project which is much important for the development of the nation's economy.

The analysis of this report shows the trend of deposit collection, approval of loans and advances and net profit of Janata Bank Limited is in upward slope. The regression analysis

between loans & advances and profits indicates that there is high degree of positive correlation. Correlation of coefficient is 0.86. Coefficient of determination is 0.7420. On the other hand, the Regression Analysis on deposits and loans & advances report that there is also high degree of positive correlation each other. Correlation of coefficient is 0.96 and CD is 0.9323. Besides the Regression Analysis on loans & advances & loans recovery also inform that the high degree of positive correlation between its. Correlation of coefficient is 0.99 and CD is 9801.

In this report, it has been found in 80% Customer Satisfied, good bank's relation agreed by 90%, loan giving formalities are necessary agreed by 30%, loan giving procedure is quick by 10%, service in time agreed by 20%, safe loan transaction agreed by 90%, terms and condition of loan is flexible agreed by 80%, Competitive interest by 100%, security tolerable by 60% and 70% agree about strict bank steps in case of Default Loan.

There 916 branches of Janata Bank Limited including 04 overseas Branch. It has agreed 1202 foreign correspondent and 65 exchange centre for inward foreign remittance that play a vital role in our country's economy. Every year the bank's profit is in increasing trend.

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# CHAPTER 1

## Introduction

### 1.1 Introduction

Financial institutions play an important role to develop economical conditions of any country. Banking sector is one of the largest sector among them. Bangladesh is a developing country. There are two types of banks like private and public banks. These banks specially work in the field of promotion of capital encouragement of entrepreneurship, employment opportunist etc. Due to globalization, money transfer and other important task is easily done by banks. In the garment sector most of the institution stake loan from bank and they also give the payment of buyers through bank, for opening LC bank is also needed. For our agriculture sector farmers take loan from agricultural bank, Not only the giving loan but also in other task like mortgage, deposit, social task and many other sector bank has involved. Open market of free economy concept is used all over the world.

### 1.2 Background of the report

The report entitled “**Credit Risk Management System of Janata Bank Limited : An analysis on Mymensingh Notun Bazar Branch**” has been prepared as an internship report fulfillment of BBA Program authorized by the Department of Business Administration of Daffodil International University.

### 1.3 Objective of the report

The main objective of the report is to identify and evaluate the credit risk management system of Janata bank limited, which includes the following specific objectives:

Specific objectives:

- To know the practices of credit structure of the bank Janata Bank Limited Mymensingh Notun Bazar Branch.
- To identify the recovery system performed by the bank Mymensingh Notun Bazar Branch.
- To measure the effectiveness of the bank in the utilization of available resources.
- To assess and highlight the legal actions followed by the Branch in terms of credit recovery.

#### **1.4 Scope of the study**

Janata bank is the second largest commercial bank in Bangladesh. It has 916 branches and four overseas branches. It is linked with 1203 foreign correspondents all over the world. I was assigned to learn practical knowledge from Janata bank Ltd. Here I tried to learn about how to manage credit risk management, tools of credit risk management, loan recovery system, facing problems in loan recovery system, performance of the bank in loan recovery system etc. All things come under the theory of credit risk management and finally I would conclude with the critical evaluation of credit risk management under the guidelines of bank companies act 1991 and a discussion on major findings and recommendations.

#### **1.5 Methodology of the study**

To conduct this study the following methodology was implemented:

##### 1.1.1 Collection of data :

In this study both primary & secondary data were collected.

- i. Primary source :
  - Personal observation
  - Desk work in different section, of the bank.
  - Conversation with bank's employees.
- ii. Secondary Source:
  - Annual report of Janata Bank Limited

- Variety of books, articles & journal related to banking.
- Information from the internet.

#### 1.1.2 Collection of data:

As, the, data which I collected from both sources, were segregated, for fulfilling the purpose of this report.

#### 1.1.3 Processing of data:

As, I, have collected data, these were further processed, to fulfill the purpose of this study.

#### 1.1.4 Presentation of data:

The collected data were segregated & then processed, after that those were inserted in tables & charts & presented in the body of this report.

So, to prepare this report combinations of the following method of research in social science have been followed:

- Interview method
- Observation method
- Desk study method

### **1.6 Limitations of the Study**

In preparing these reports I have faced some problems which are as follows:

- The in sufficiency of information basically various information are not provided to me by the employees of the bank in terms of security and other corporate obligation.
- Bank employees are very busy; they could not pay enough time.
- Legal action related information was not available.
- Some consumers' of the bank did not give answers in some issues.
- All the clients whom I interviewed.

## CHAPTER-2

### Overview of the company

#### 2.1 History of Janata Bank Ltd.

Janata bank is the second largest commercial bank in Bangladesh. The bank emerged as Janata bank by combining with united bank Ltd and union bank Ltd under the nationalization ordinance of 1972. It was incorporated in 2007. The Board of Directors is composed of 13 (Thirteen) members headed by a Chairman. The Directors are representatives from both public and private sectors. The Bank is headed by the Chief Executive Officer & Managing Director, who is a reputed banker. The corporate head office is located at Dhaka with 10 (ten) Divisions comprising of 37 (thirty seven) Departments. The corporate head office is located at Motijheel in Dhaka. It has 916 branches, 450 branches in Urban and 466 branches are in rural areas. It has more than 15000 employees up to September 2012, the total amount of authorized capital of Tk. 200 crore and paid up capital of Tk. 100 crore.

#### 2.2 Mission of Janata Bank Ltd.

To mobilize financial resources from within and abroad to contribute to Agriculture, Industry & socio economic development of the country and to play a catalytic role in the formation of capital market.

#### 2.3 Vision of Janata Bank Ltd.

To become the Bank of choice in serving the nation as a progressive and Socially Responsible financial institution by bringing credit & commerce together for profit and sustainable growth.

#### 2.4 Services of Janata Bank Ltd.

Janata Bank offers all the major banking facilities and services to its customers. The bank with its network spreading throughout the country has a unique feature and investing them into different loan portfolio.

Janata Bank provides wide ranging branch network and personalized services is given bellow,

- a. Telegraphic Transfer
- b. Mail Transfer
- c. Demand Draft

- d. Security Deposit Receipt
- e. Pay Order
- f. Transfer of fund by Special Arrangement
  - 1. Normal Transfer
  - 2. Electronic transfer through Ready Cash Card.
- g. Foreign Remittance Payment

**The Bank provides the following Interest facilities:**

- a. Three types of Deposits.
  - 1. Current Deposit
  - 2. Savings Deposit
  - 3. Short Term Deposit
- b. FDR Accounts Status
- c. Advance Account Status
- d. Loan account Status
- e. NBR Accounts

## **2.5 International Banking**

- Janata Bank Limited has already established a worldwide network and relationship in international Banking through its 4 (four) overseas branches and 1218 foreign correspondents.
- The Bank has earned an excellent business reputation in handling and funding international trade particularly in boosting export & import of the country.
- The Bank finances exports within the frame-work of the export policy of the country.
- It is one of the pioneers in promoting back to back Letter of Credit for the RMG (Ready Made Garments) sector.

## **2.6 Export Finance**

To boost up country's Export, Janata Bank Limited has been providing different kinds of assistance to exporters. Some of which are as under:-

- Providing Pre-Shipment and Post-Shipment Finance, Export Guarantee and bonding facility etc.
- Concessional rate of interest for exports Finance.
- Back to Back L/C under bonded Warehouse facility
- Sight & Unasked L/C against Firm Contract for import of raw materials.
- Sight L/C under EDF
- Exporter's Retention Quota A/C both interest bearing and non-interest bearing.
- Export incentive Program.
- Banking at Export Processing Zone
- Scope for establishment of export oriented industry by 100% foreign investment and by joint-venture
- The sole bank to disburse Government Export Promotion Fund against export of Computer Software & Data Entry Processing

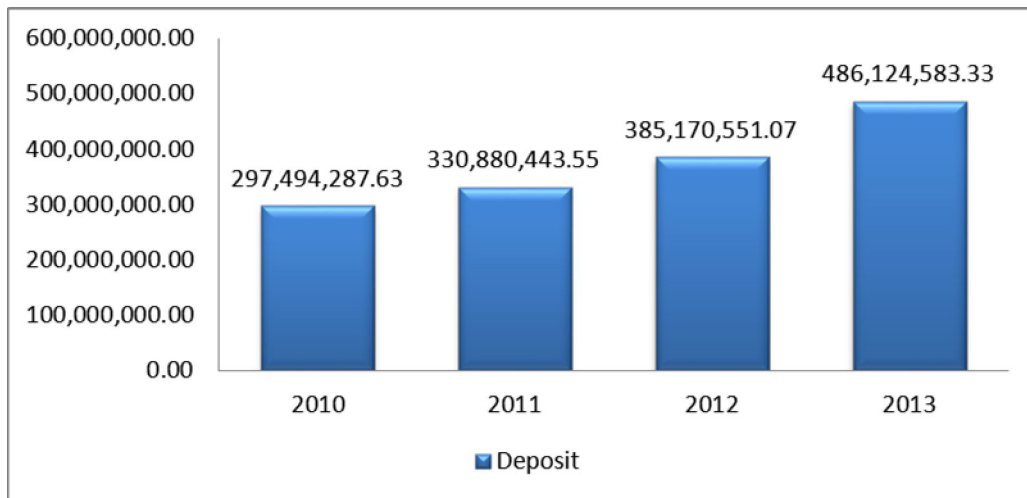
## **2.7 Principle Activities of Janata Bank**

Janata Bank is the second largest commercial bank in Bangladesh. The aim of the Bank is to actively participate in the socio-economic development of the nation by operating a commercially sound Banking system. It provides credit to deserving borrowers and at the same time, protects depositor's interest.

Deposits:

Janata Bank authorized total deposit of BDT486124589.53 crore as of December 31, 2013 as compared to BDT 385170551.66 crore in 2012. It's indicated janata bankreserve has increased FY2013 than reserve of FY2012.

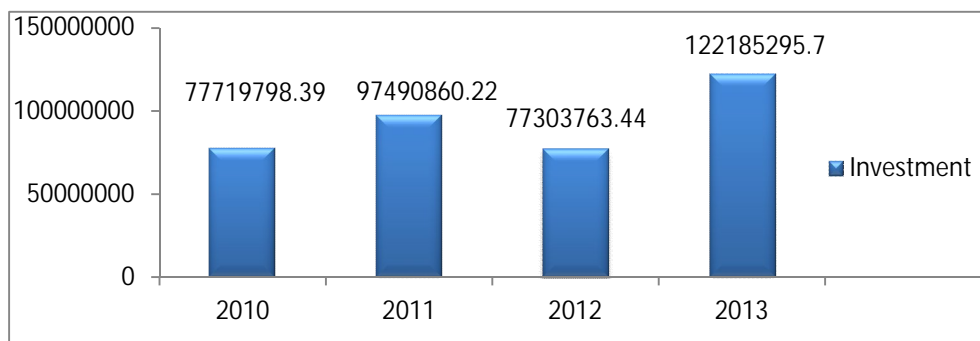
## Deposit and Deposit Mix:



Graph 2.1: Deposits of Four Years (TK. In Crore)

## Investment:

Investment of Janata bankis increasing year by year. So we can see customers are interested to Janata Bank ltd for getting higher return.



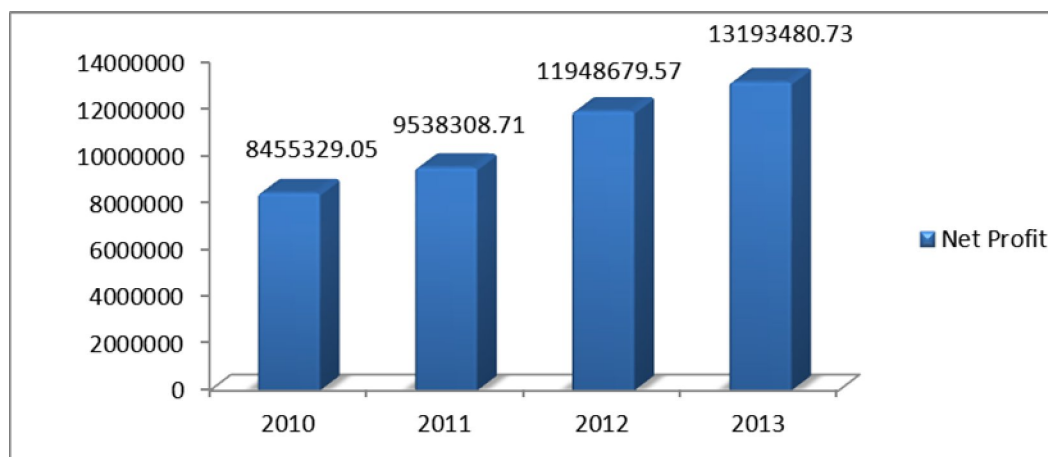
Graph 2.2: Investments of Four years Tk. In Crore



Portfolio wise investment is described below:

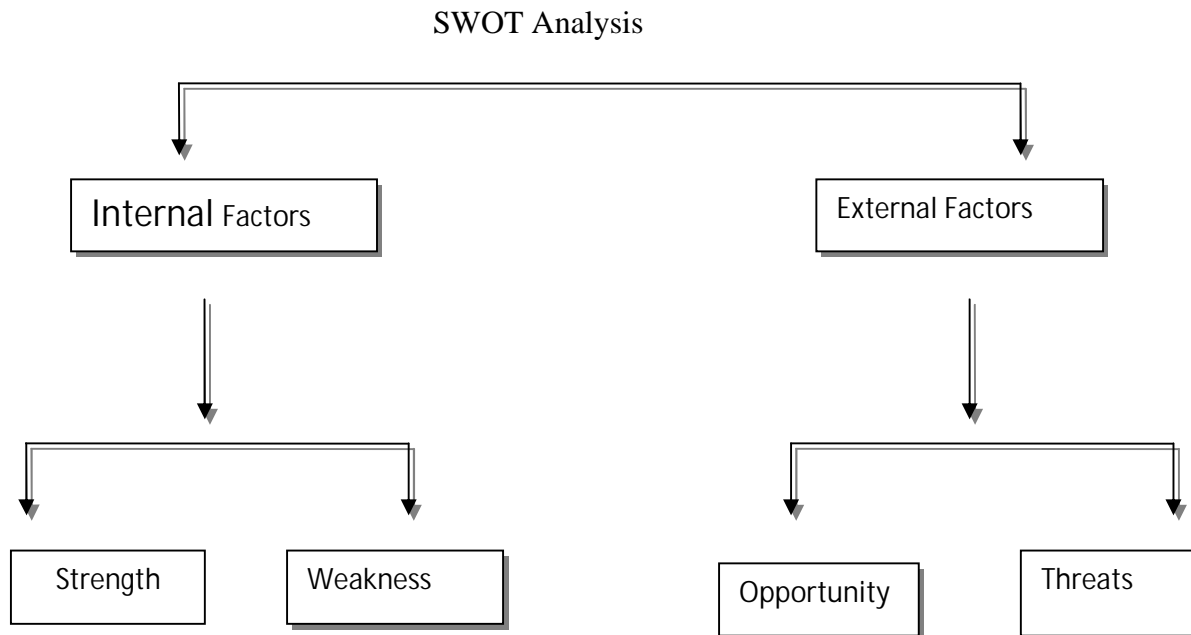
SL.#	Particulars	2013 (Tk.)	%	2012 (Tk.)	%
1	Govt. Securities (Treasury bill, Note/Bond, Prize bond)	108982298.39	89.19	70383615.59	91.05
2	Debentures	404932.8	0.33	349959.68	0.45
3	Corporate Bonds	1196236.56	0.98	927419.35	1.20
4	Shares	11577782.26	9.48	5618736.56	7.27
5	Others	24045.7	0.02	24045.7	0.03
Total		122185295.7	100	77303776.88	100

### Net Profit:



Graph 2.3: Net Profit of Four years Tk. In Crore

## 2.8 SWOT Analysis of Janata Bank Ltd.



SWOT analysis refers to analysis of strengths, weaknesses, opportunities and threats of an organization. For all of these, SWOT analysis is considered as an important tool for making changes in the strategic management of an organization.

### 2.8.1 Strength of Janata Bank

- **Top Management:** The Janata Bank is operated by a very efficient management group. So, the top management of the bank is the major strength for JBL.
- **Company Reputation:** Janata Bank has already established a positive reputation in the banking industry of the country. It is one of the leading public sector commercial banks in Bangladesh.
- **Many Branches:** Janata Bank has 916 branches to provide services to their customers.
- **Corporate Culture:** Janata Bank has an interactive corporate culture. The working environment of JBL is very friendly and informal. This corporate culture works as a great motivation factor among the employees of the bank.
- **Various Products and Services:** Janata Bank offers various types of products and services to their clients.

## 2.8.2 Weakness of Janata Bank

- A lot of depended for decision making on head office.
- Absence of upgraded website.
- Low remuneration package.
- Low promotional campaign.
- Not fully computerized.

## 2.8.3 Opportunities of Janata Bank

- **Product line proliferation:**Janata Bank must expand its product line to enhance its sustainable competitive advantage.
- **Introducing more branches:** Although Janata Bank already has 916 branches to provide services to its customers it must also open more branches in those places where people needs banking facilities.
- **Introducing special corporate scheme:**Janata Bank can introduce special corporate schemes for the corporate customers or officers who have an income level higher from the service holders.

## 8.4 Threats of Janata Bank

- The default risks of all terms of loan have to be minimizing in order to sustain in the financial market. Because default risk leads the organization towards to bankrupt.
- The low compensation package of the employees from mid level to lower level position threats the employee motivation.
- A number of commercial/ foreign as well as private banks.
- Customer awareness of pricing and services.

# CHAPTER-3

## Concept of Credit Risk Management

### 3.1 Definition of Credit:

The word credit comes from the Latin word “Credo” meaning “I believe”. It is a lender’s trust in a people /firms or company’s ability or potential ability and intention to repay. In other words, credit is the ability to command goods or services of another in return for promise to pay such goods or services at some specified time in the future. For a bank, it is the main source of profit and on the other hand, the wrong use of credit would bring disaster not only for the bank but also for the economy a whole.

The objective of the credit management is to maximize the performing asset and the minimization of the non-performing asset as well as ensuring the optimal point of loan and advance and their efficient management. Credit management is a dynamic field where a certain standard of long-range planning is needed to allocate the fund in diverse field and to minimize the risk and maximize the return on the invested fund.

### 3.2 Factors Related with Credit

- Risk
- Time
- Interest rate
- Security or Collateral
- Operating Expense
- Legal Considerations
- Inflation
- Finance Charge

### 3.3 Types of Credit Risk Management

Credit risk can be classified in the following way:

**Credit default risk-** The risk of loss arising from a debtor being unlikely to pay its loan obligations in full or the debtor is more than 90 days past due on any material credit obligation. Default risk may impact all credit-sensitive transactions, including loans, securities and derivatives.

**Concentration risk** - The risk associated with any single exposure or group of exposures with the potential to produce large enough losses to threaten a bank's core operations. It may arise in the form of single name concentration or industry concentration.

**Country risk** - The risk of loss arising from sovereign state freezing foreign currency payments (transfer/conversion risk) or when it defaults on its obligations (sovereign risk).

### 3.4 Objectives of Credit Risk Management

There are some objectives behind a written credit risk management of Janata Bank that are as follows:

- To provide a guideline for giving loan.
- Quick response to the customer need.
- Shorten the procedure of giving loan.
- Reduce the volume of work from top level management.
- Handing over of authority of work from top level of management.
- To check and balance the operational activities.

### 3.5 Definition of Credit Risk Grading (CRG)

- The Credit Risk Grading (CRG) is a collective definition based on the pre- specified scale and reflects the underlying credit-risk for a given exposure.
- A Credit Risk Grading deploys a number/ alphabet/ symbol as a primary summary indicator of risks associated with a credit exposure.
- Credit Risk Grading is the basic module for developing a Credit Risk Management system.

### 3.6 Use of Credit Risk Grading

Janata Bank Ltd. applies the following credit risk grading matrix as provided by Bangladesh Bank guidelines.

<b>Risk Rating</b>	<b>Grade</b>	<b>Definition</b>
Superior – Low Risk	1	Facilities are fully secured by cash deposits, government bonds or a counter guarantee from a top tier international bank. All security documentation should be in place.
Good – Satisfactory Risk	2	The repayment capacity of the borrower is strong. The borrower should have excellent liquidity and low leverage. The company should demonstrate consistently strong earnings and cash flow and have anJBL enmeshed track record. All security documentation should be in place. Aggregate Score of 95 or greater based on the Risk Grade Scorecard.
Acceptable – Fair Risk	3	Adequate financial condition though may not be able to sustain any major or continued setbacks. These borrowers are not as strong as Grade 2 borrowers, but should still demonstrate consistent earnings, cash flow and have a good track record. A borrower should not be graded better than 3 if realistic audited financial statements are not received. These assets would normally be secured by acceptable collateral (1st charge over stocks / debtors / equipment / property). Borrowers should have adequate liquidity, cash flow and earnings. An Aggregate Score of 75-94 based on the Risk Grade Scorecard.
Marginal - Watch list	4	Grade 4 assets warrant greater attention due to conditions affecting the borrower, the industry or the economic environment. These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings. Facilities should be downgraded to 4 if the

		borrower incurs a loss, loan payments routinely fall past due, account conduct is poor, or other untoward factors are present. An Aggregate Score of 65-74 based on the Risk Grade Scorecard.
Special Mention	5	Grade 5 assets have potential weaknesses that deserve management's close attention. Facilities should be downgraded to 5 if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage), if loan payments remain past due for 30-60 days, or if a significant petition or claim is lodged against the borrower. Full repayment of facilities is still expected and interest can still be taken into profits. An Aggregate Score of 55-64 based on the Risk Grade Scorecard.
Substandard	6	Financial condition is weak and capacity or inclination to repay is in doubt. Loans should be downgraded to 6 if loan payments remain past due for 60-90 days, if the customer intends to create a lender group for debt restructuring purposes, the operation has ceased trading or any indication suggesting the winding up or closure of the borrower is discovered. An Aggregate Score of 45-54 based on the Risk Grade Scorecard.
Doubtful and Bad (non-performing)	7	Full repayment of principal and interest is unlikely and the possibility of loss is extremely high. However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Loss. Assets should be downgraded to 7 if loan payments remain past due in excess of 90 days, and interest income should be taken into suspense (nonaccrual). Loan loss provisions must be raised against the estimated unrealizable amount of all facilities. The adequacy of provisions must be reviewed at least quarterly on all non-performing loans, and the bank should pursue legal options to enforce security to obtain repayment or negotiate an appropriate loan rescheduling. In all cases, the requirements of Bangladesh Bank in CIB reporting, loan rescheduling and

		provisioning must be followed. An Aggregate Score of 35-44 based on the Risk Grade Scorecard
Loss (non-performing)	8	Assets graded 8 are long outstanding with no progress in obtaining repayment (in excess of 180 days past due) or in the late stages of wind up/liquidation. The prospect of recovery is poor and legal options have been pursued. The proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. An Aggregate Score of 35 or less based on the Risk Grade Scorecard

Source: (Focus Group on Credit Risk Management, (2005), Credit Risk Management: Industry Best Practices, Managing Core Risks of Financial Institutions, Bangladesh Bank)

If any facility is to be downgraded, the RM prepares The Early Alert Report and it is duly forwarded to the higher authority for approval. After approval, the report is forwarded to Credit Administration, who is responsible to ensure the correct facility/borrower Risk Grades are updated on the system.



## **CHAPTER-4**

### **Credit Risk Management Process**

#### **4.1 Process of Credit Risk Management**

Credit risk management process should cover the entire credit cycle starting from the origination of the credit in a financial institution's books to the point the credit is extinguished from the books (Morton Glantz, 2002). It should provide for sound practices in:

- 4.1 Credit processing/appraisal
- 4.2 Credit approval/sanction
- 4.3 Credit documentation
- 4.4 Credit administration
- 4.5 Disbursement
- 4.6 Monitoring and control of individual credits
- 4.7 Monitoring the overall credit portfolio (stress testing)
- 4.8 Credit Classification and
- 4.9 Managing problem credits/recovery

#### **4.2 Credit Processing/Appraisal**

Credit processing is the stage where all required information on credit is gathered and applications are screened. Credit application forms should be sufficiently detailed to permit gathering of all information needed for credit assessment at the outset. In this connection, financial institutions should have a checklist to ensure that all required information is, in fact, collected. Financial institutions should set out pre-qualification screening criteria, which would act as a guide for their officers to determine the types of credit that are acceptable. For instance,

the criteria may include rejecting applications from blacklisted customers. These criteria would help institutions avoid processing and screening applications that would be later rejected.

The next stage to credit screening is credit appraisal where the financial institution assesses the customer's ability to meet his obligations. Institutions should establish well designed credit appraisal criteria to ensure that facilities are granted only to creditworthy customers who can make repayments from reasonably determinable sources of cash flow on a timely basis (Morton Glantz, 2002).

In the case of loan syndication, a participating financial institution should have a policy to ensure that it does not place undue reliance on the credit risk analysis carried out by the lead underwriter. The institution must carry out its own due diligence, including credit risk analysis, and an assessment of the terms and conditions of the syndication. As a general rule, the appraisal criteria will focus on:

- amount and purpose of facilities and sources of repayment;
- integrity and reputation of the applicant as well as his legal capacity to assume the credit obligation;
- risk profile of the borrower and the sensitivity of the applicable industry sector to economic fluctuations;
- physical inspection of the borrower's business premises as well as the facility that is the subject of the proposed financing;
- current and forecast operating environment of the borrower;
- Management capacity of corporate customers (L.R.Chowdhury,2004).

### **4.3 Credit-approval/Sanction**

A financial institution must have in place written guidelines on the credit approval process and the approval authorities of individuals or committees as well as the basis of those decisions. Approval authorities should be sanctioned by the board of directors. Approval authorities will cover new credit approvals, renewals of existing credits, and changes in terms and conditions of previously approved credits, particularly credit restructuring, all of which should be fully

documented and recorded. Prudent credit practice requires that persons empowered with the credit approval authority should not also have the customer relationship responsibility.

Depending on the size of the financial institution, it should develop a corps of credit risk specialists who have high level expertise and experience and demonstrated judgment in assessing, approving and managing credit risk. An accountability regime should be established for the decision-making process, accompanied by a clear audit trail of decisions taken, with proper identification of individuals/committees involved.

#### **4.4 Credit Documentation**

Documentation is an essential part of the credit process and is required for each phase of the credit cycle, including credit application, credit analysis, credit approval, credit monitoring, and collateral valuation, and impairment recognition, foreclosure of impaired loan and realization of security. The format of credit files must be standardized and files neatly maintained with an appropriate system of cross-indexing to facilitate review and follow up.

The Bangladesh Bank will pay particular attention to the quality of files and the systems in place for their maintenance. Documentation establishes the relationship between the financial institution and the borrower and forms the basis for any legal action in a court of law. Institutions must ensure that contractual agreements with their borrowers are vetted by their legal advisers (L.R.Chowdhury,2003).

For security reasons, financial institutions should consider keeping only the copies of critical documents (i.e., those of legal value, facility letters, and signed loan agreements) in credit files while retaining the originals in more secure custody. Credit files should also be stored in fire-proof cabinets and should not be removed from the institution's premises.

Financial institutions should maintain a checklist that can show that all their policies and procedures ranging from receiving the credit application to the disbursement of funds have been complied with. The checklist should also include the identity of individual(s) and/or committee(s) involved in the decision-making process (Morton Glantz, 2002).

## **4.5 Credit Administration**

Financial institutions must ensure that their credit portfolio is properly administered, that is, loan agreements are duly prepared, renewal notices are sent systematically and credit files are regularly updated. An institution may allocate its credit administration function to a separate department or to designated individuals in credit operations, depending on the size and complexity of its credit portfolio (Credit Risk Management: Industry Best Practices 2005, Bangladesh Bank).

A financial institution's credit administration function should, as a minimum, ensure that:

- credit files are neatly organized, cross-indexed, and their removal from the premises is not permitted;
- the borrower has registered the required insurance policy in favor of the bank and is regularly paying the premiums;
- credit facilities are disbursed only after all the contractual terms and conditions have been met and all the required documents have been received;
- collateral value is regularly monitored;
- the borrower is making timely repayments on interest, principal and any agreed to fees and commissions;
- the established policies and procedures as well as relevant laws and regulations are complied with; and
- On-site inspection visits of the borrower's business are regularly conducted and assessments documented (L.R.Chowdhury,2004).

## **4.6 Disbursement**

Once the credit is approved, the customer should be advised of the terms and conditions of the credit by way of a letter of offer. The duplicate of this letter should be duly signed and returned to the institution by the customer. The facility disbursement process should start only upon receipt of this letter and should involve, inter alia, the completion of formalities regarding documentation, the registration of collateral, insurance cover in the institution's favour and the vetting of documents by a legal expert. Under no circumstances shall funds be released prior to

compliance with pre-disbursement conditions and approval by the relevant authorities in the financial institution (L.R.Chowdhury, 2004).

#### **4.7 Monitoring and Control of Individual Credits**

To safeguard financial institutions against potential losses, problem facilities need to be identified early. A proper credit monitoring system will provide the basis for taking prompt corrective actions when warning signs point to deterioration in the financial health of the borrower. Examples of such warning signs include unauthorized drawings, arrears in capital and interest and deterioration in the borrower's operating environment (Morton Glantz, 2002). Financial institutions must have a system in place to formally review the status of the credit and the financial health of the borrower at least once a year. More frequent reviews (e.g at least quarterly) should be carried out of large credits, problem credits or when the operating environment of the customer is undergoing significant changes.

In broad terms, the monitoring activity of the institution will ensure that:

- Funds advanced are used only for the purpose stated in the customer's credit application;
- Financial condition of a borrower is regularly tracked and management advised in a timely fashion;
- Collateral coverage is regularly assessed and related to the borrower's financial health;
- The institution's internal risk ratings reflect the current condition of the customer;

#### **4.8 Monitoring the Overall Credit Portfolio (Stress Testing)**

An important element of sound credit risk management is analyzing what could potentially go wrong with individual credits and the overall credit portfolio if conditions/environment in which borrowers operate change significantly. The results of this analysis should then be factored into the assessment of the adequacy of provisioning and capital of the institution. Such stress analysis can reveal previously undetected areas of potential credit risk exposure that could arise in times of crisis (Morton Glantz, 2002).

Possible scenarios that financial institutions should consider in carrying out stress testing include:

- Significant economic or industry sector downturns;
- Adverse market-risk events; and
- Unfavorable liquidity conditions.

Financial institutions should have industry profiles in respect of all industries where they have significant exposures. Such profiles must be reviewed /updated every year. Each stress test should be followed by a contingency plan as regards recommended corrective actions. Senior management must regularly review the results of stress tests and contingency plans. The results must serve as an important input into a review of credit risk management framework and setting limits and provisioning levels (Morton Glantz, 2002).

#### **4.9 Classification of credit**

It is required for the board of directors of a financial institution to “establish credit risk management policy, and credit impairment recognition and measurement policy, the associated internal controls, documentation processes and information systems;”

Credit classification process grades individual credits in terms of the expected degree of recoverability. Financial institutions must have in place the processes and controls to implement the board approved policies, which will, in turn, be in accord with the proposed guideline. They should have appropriate criteria for credit provisioning and write off. International Accounting Standard 39 requires that financial institutions shall, in addition to individual credit provisioning, assess credit impairment and ensuing provisioning on a credit portfolio basis. Financial institutions must, therefore, establish appropriate systems and processes to identify credits with similar characteristics in order to assess the degree of their recoverability on a portfolio basis.

Financial institutions should establish appropriate systems and controls to ensure that collateral continues to be legally valid and enforceable and its net realizable value is properly determined. This is particularly important for any delinquent credits, before netting off the collateral’s value against the outstanding amount of the credit for determining provision. As to any guarantees given in support of credits, financial institutions must establish procedures for verifying periodically the net worth of the guarantor.

**4.10 Diagrammatically the whole loan appraisal and approval process is below**

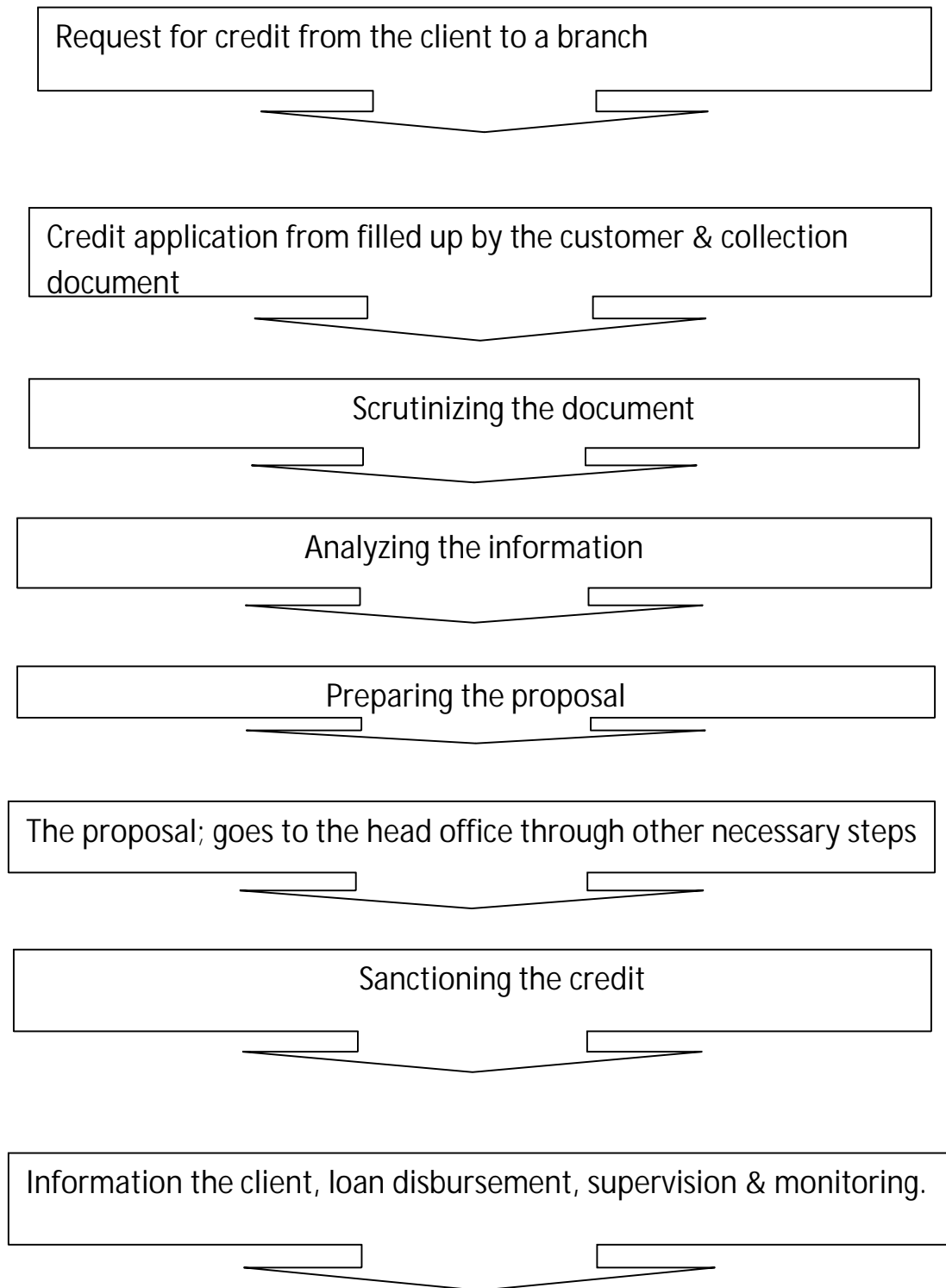


Fig: Loan appraisal and approval process

### 4.11 Disbursement of Loan

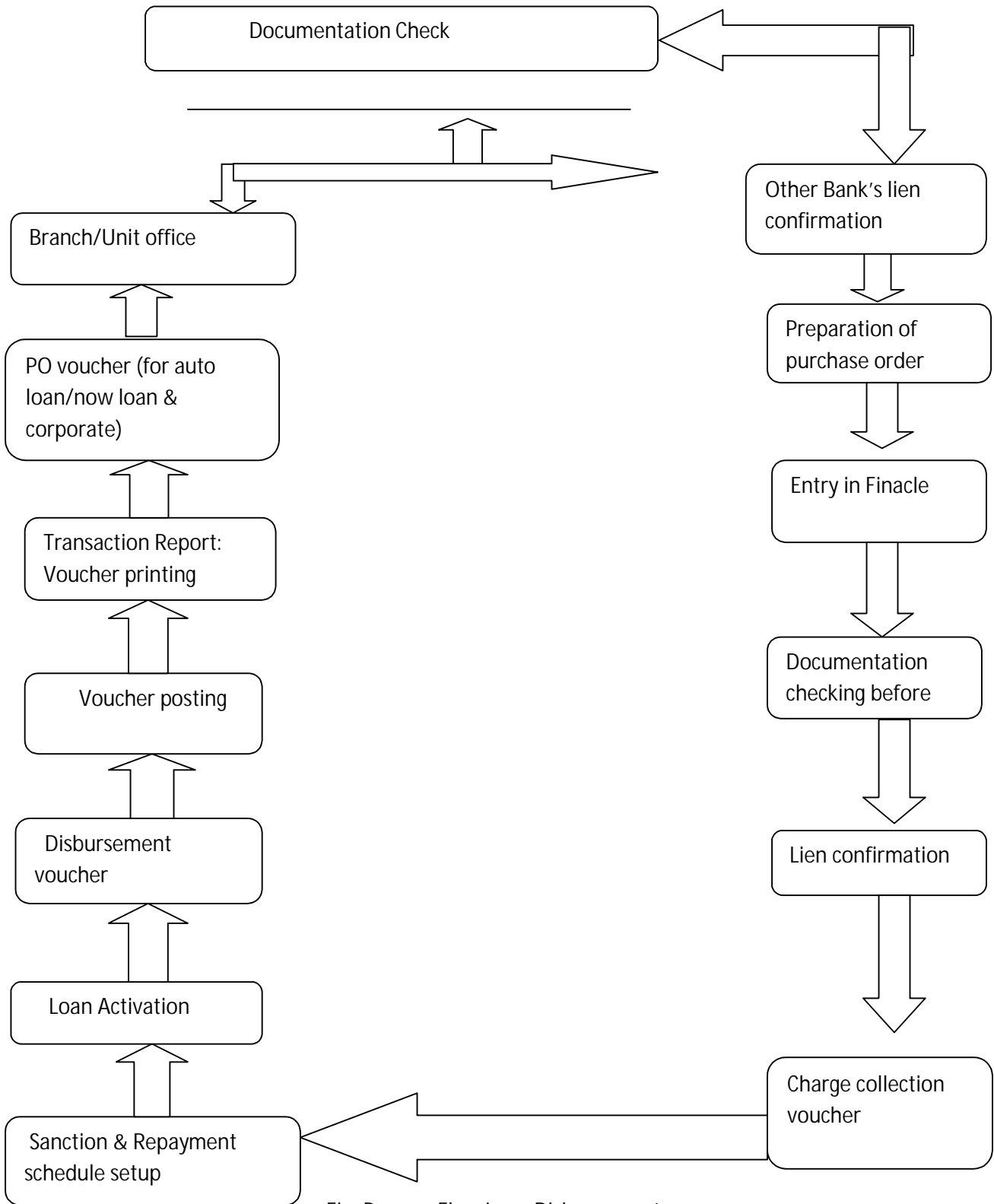


Fig: Process Flow Loan Disbursement



## CHAPTER-5

### Classified Loans & Bangladesh Bank Guidelines

#### 5.1 Classified of Loans

Banks are financial service firm, producing and selling professional management of the public's funds as well as performing many other roles in the economy. But now- a-days commercial banks are not performing their activities smoothly for a large burden of default loan. Every year Janata Bank distributes thousand crore taka among individuals, organizations etc. but a large sum of these distributed fund cannot be recovered in due time. The Bank has to classify this loan. In this chapter I would like to concentrate on classification procedure, provision making for particular classification, performance of the bank regarding classified loan and recovery of such classified loan.

#### Loan Classification System

Length of overdue	Status of classification	Rate of provision
All loans except Agricultural loans:		Annual provision
Less than 1 year	Unclassified	1%
Loans overdue for 1 year but less than 3 years	Substandard	10%
Loans overdue for 3 years but less than 5 years	Doubtful	50%

Loans overdue for 5 years or more	Bad/loss	100%
For agricultural loan: Loans not overdue for 5 years or more	Classified, substandard, doubtful	5%
Loans overdue for 5 years or more	Bad/ loss	100%

According to this circular loans and advances were classified on a loan by loan basis rather sample classification. This process was continued till 1994. Bangladesh Bank further issued a circular in 1995 (BCD circular#20/1994). The title of the circular was “Revised rules of classification and provisioning of loans and advances,” which came into implementation from January 1, 1995.

Sub standard (SS)  When degree of risk for non-payable is high but there is reasonable respect that the loan condition can be improved	Continuous/demand/ term loan  (less than 5 years)  more than 5 years  short term agri. credit and micro credit	overdue is more than 3 months but less than 6 months if default amount of installment is equal to installment payable in 6 months  If default amount of installment is equal to installments payable in 12 months.  overdue is more than 12 months but less than 36 months
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	more than 5 years	If default amount of installment is equal to installment payable in 24 months.
	Short term agri. credit and micro credit	overdue is more than 60 months

**Schedule of loan classification and provision program**

<b>a. Types of classification</b>	<b>1<sup>st</sup> stage</b>	<b>2<sup>nd</sup> stage</b>	<b>3<sup>rd</sup> stage</b>	<b>4<sup>th</sup> stage</b>	<b>5<sup>th</sup> stage</b>
	Period overdue	Period overdue	Period overdue	Period overdue	Period overdue
Unclassified	Less than 18 months	Less than 12 months	Less than 19 months	Less than 6 months	Less than 3 months
Substandard	18 months or more but less than 36 months	12 months or more but less than 24 months	9 months or more but less than 24 months	6 months or more but less than 12 months	3 months or more but less than 6 months
Doubtful	36 months or more but less than 48 months	24 months or more but less than 36 months	12 months or more but less than 24 months	9 months or more but less than 12 months	3 months or more but less than 6 months
Bad	More than 48 months	36 months or more	36 months or more	24 months or more	12 months or more

<b>b. Rate of provision</b>					
Unclassified:					
Standard	5%	2%	2%	2%	1%
SMA	5%	5%	5%	5%	5%
Classified:					
Substandard	20%	20%	20%	20%	20%
Doubtful	50%	50%	50%	50%	50%
Bad	100%	100%	100%	100%	100%
<b>c. Period of classification</b>	Annual basis	Half yearly basis	Half yearly basis	Quarterly basis	Quarterly basis

For loan classification Bangladesh Bank also issues circular time to time after 27/12/1994 like BPRD circular no 16,9,2,9 and 17 of 6/12/1998, 14/5/2001, 15/3/2005, 25/8/2005, 6/12/2005 and 2006 respectively. Some of these are as follows:

### **Status, type and definition of classification**

<b>Status</b>	<b>loan type</b>	<b>Definition of status</b>
Unclassified	all current loan	all current loans with required eligible security
Sub standard (SS)	Continuous/demand/ term loan	overdue is more than 3 months but less than 6

<p>When degree of risk for non-payable is high but there is reasonable respect that the loan condition can be improved</p>	<p>(less than 5 years)</p> <p>more than 5 years</p> <p>short term agri. credit and micro credit</p>	<p>months if default amount of installment is equal to installment payable in 6 months</p> <p>If default amount of installment is equal to installments payable in 12 months.</p> <p>overdue is more than 12 months but less than 36 months</p>
<p>Doubtful (DF)</p> <p>When chance of recovery is uncertain</p>	<p>Continuous and demand</p> <p>Term loan less than 5 years</p> <p>More than 5 years</p>	<p>overdue is more than 6 months but less than 9 months</p> <p>If default amount of installment is equal to installments payable in 12 months.</p> <p>If default amount of installment is equal to installments payable in 12 to 18 months.</p>

	Short term agri. credit and micro credit	Overdue is more than 36 months but less than 60 months.
Bad/ loss (BL)  No security held, borrower not traceable, time barred loans, no hope of recovery	Continuous and demand  Term loan (up to 5 years)  more than 5 years  Short term agri. credit and micro credit	overdue is more than 12 months  If default amount of installment is equal to installment payable in 18 months.  If default amount of installment is equal to installment payable in 24 months.  overdue is more than 60 months

Source: Bangladesh Bank, BRPD Circular No. 16 of 1998\*

# CHAPTER-6

## Performance of JBL( Mymensingh notun bazar branch)

### 6.1. Measuring Liquidity:

Particulars	2013	2012	2011	2010
1.Loan to Total Deposit ratio: $\frac{\text{TotalLoan \& Advance}}{\text{TotalDeposit.}}$	<u>346506767.99</u> 486124589.53 =0.71	<u>303403506.09</u> 385170551.66 =0.79	<u>223601459.17</u> 330903157.17 =0.68	<u>194459923.91</u> 297494288.62 =0.65
2.Loan to Liabilities ratio : $\frac{\text{TotalLoan \& Advance}}{\text{TotalLiabilities}}$	<u>346506767.99</u> 551393083.75 =0.63	<u>303403506.09</u> 436617743.43 =0.69	<u>223601459.17</u> 376078512.04 =0.59	<u>194459923.91</u> 346901786.76 =0.56
3. Asset to Liabilities ratio: $\frac{\text{TotalAsset}}{\text{TotalLiabilities}}$	<u>591921195.07</u> 551393083.75 =1.07	<u>464024096.98</u> 436617743.43 =1.06	<u>396238451.84</u> 376078512.04 =1.05	<u>359082388.34</u> 346901786.76 =1.035



## Comments:

A higher Liquidity ratio indicates a less Risk & Less Profitability of a Bank. The Bank has the Loan: Deposit ratio in 2012 is 0.79, But in 2013 the proportion of loan amount gradually decrease in respect to Deposit collection. In year 2013, Janata Bank grand taka 0.71 of loan in respect of deposit taka 1.07, which show a grater utilization of Deposit money. Furthermore Bank's Loan to Liabilities ratio is also decreases from 2012 to 2013, which indicate lower default risk. Finally Janata Bank's Asset level also increase in respect with total Asset in last year.

## 6.2. Sector wise loan disbursement of Janata Bank limited (Mymensingh Notun Bazar Branch)

### 6.2.1 Loans & Advances

Following the guidelines of Bangladesh Bank, credit facilities have been extended to productive and priority sectors. Total Loans and Advances of the Bank stood at TK.346506720.43 crore as of 31 December 2013 as compared to TK.303403225.81 crore in 2012, registering a growth rate of 12.44%. In credit facilities, the Bank has given due importance to sectoral needs and requirements of both public and private sector.

### Sector wise Loans and Advances are shown below:

Amount in crore

Year	2011	2012	2013
Jute Industries	12367204.30	17075000	6220295.71
Jute Trade	224059.14	319354.84	214381.72
Tannery (Industry & Trade)	7144892.47	6347446.24	5510752.69
Textile (Industry & Trade)	7611021.51	10016155.91	10487231.18
Transport	41935.48	42741.94	43279.57
Steel & Engineering	2980779.57	3664650.54	3580107.53
Tea	117876.34	118951.61	119220.43
Sugar Mills	3981182.81	5094220.43	5016397.85

House Building	1558467.74	2032392.47	2004166.67
Rural Credit	17278091.41	19594354.84	21978763.44
Bricks	1617338.71	1918682.81	2019489.25
Cold Storages	89650.54	383064.52	643145.16
Food (Industry & Trade)	2207930.11	2547983.87	2802419.35
Export Credit	25648790.32	37992607.53	51338172.04
Import Credit	43958064.52	70913978.49	81496908.60
Industrial Credit	30069986.56	53836021.51	55848118.31
Others	66703534.92	71508951.66	97183951.65
Total	223600806.45	303403225.81	346506720.43

Table 6.1: Sector wise Loans and Advances

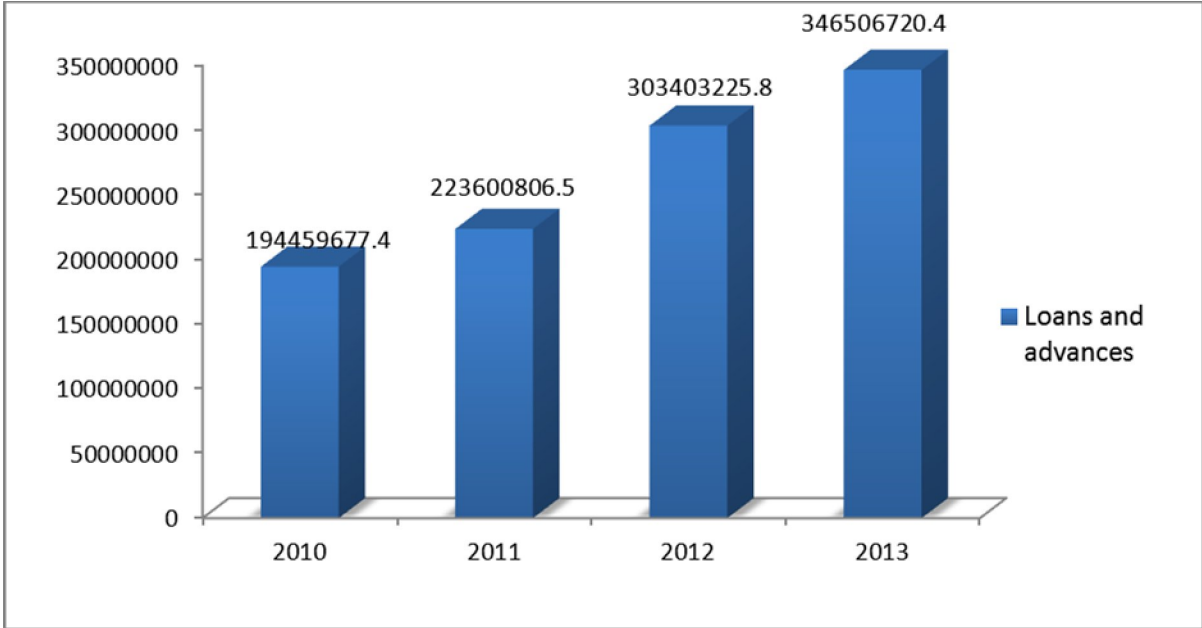
### 6.2.2 Loans and Advances of last four years

Total loans and advances performed by JBL Bank Ltd. are quite satisfactory and are maintaining an increasing trend over the years. The below graph shows, in 2013, the amount increased significantly than the previous years.

Year	Loans and Advances
2010	194459677.42
2011	223600806.45
2012	303403225.81
2013	346506720.43

Table 6.2: Loans and Advances of last Four years

# Loans and Advances



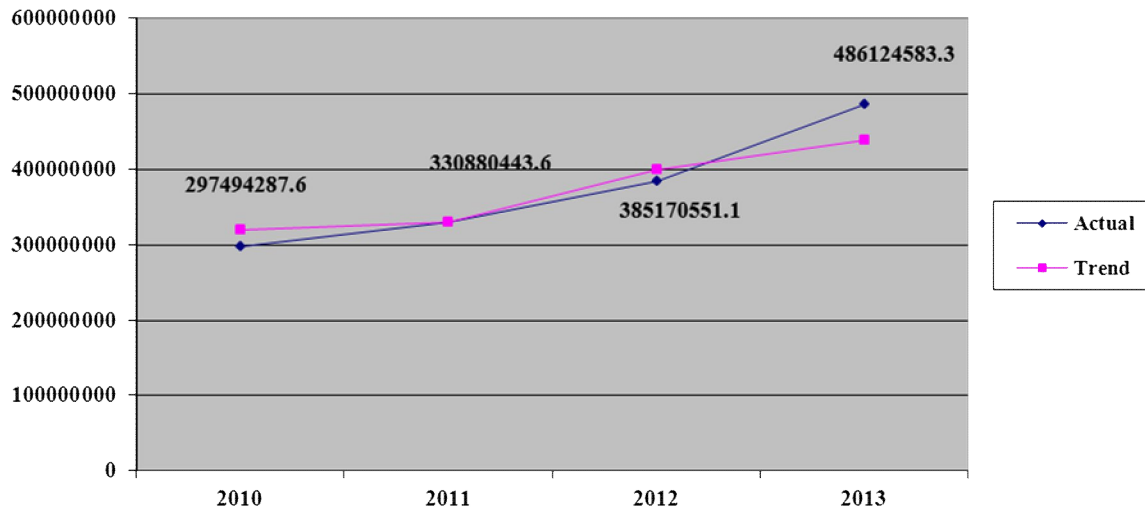
Graph 6.1: Loans and Advances of last Four years

**Trend analysis:**

As aspect of technical analysis that tries to predict the future movement profit on past data. Trend analysis is based on the idea that what has happened in the past gives traders an idea of what happen in the future

### 6.2.3 Trend Analysis on Deposit:

Fitting straight line trend by the method of least squares we find the following line:-



Graph 6.2: Trend analysis on Deposit

Comment:

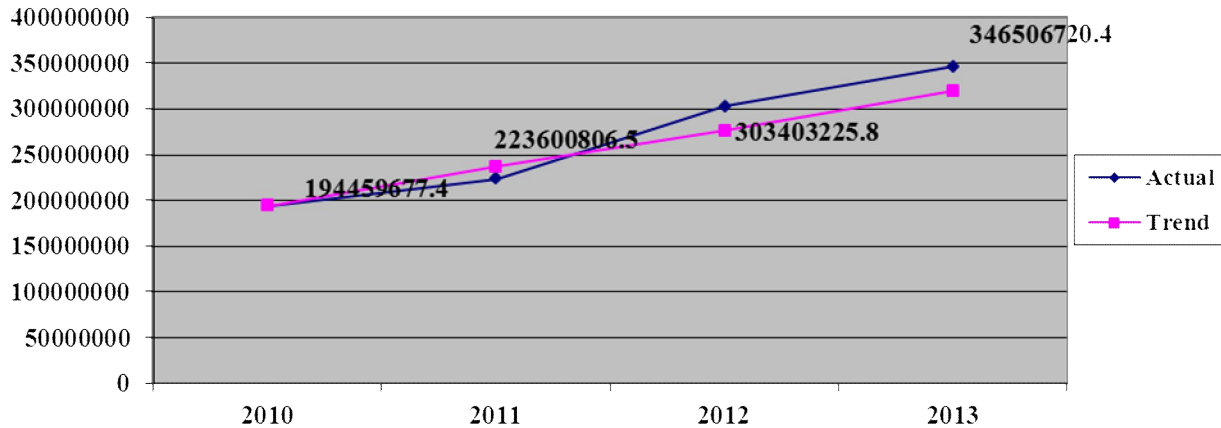
Here the value of  $x$  is constant and the value of  $y$  is slope. The positive value of  $y$  means positive slope and the negative value of  $y$  means negative slope.

From the above graph we see that the bank increases deposits day by day. So, we can say that deposit level is satisfactory.

DEPOSIT TARGET FOR 2014      TK= 549906438.17 crore

### 6.2.4 Trend Analysis on Loans and advances:

Fitting straight line trend by the method of least squares we find the following line:-



Graph 6.3: Trend analysis on Loans and Advances

#### Comment:

Here the value of  $x$  is constant and the value of  $y$  is slope. The positive value of  $y$  means positive slope and the negative value of  $y$  means negative slope. From the above graph we see that the bank increases loans and advances day by day.

LOANS AND ADVANCES TARGET FOR 2014

TK= 382125161.29 crore

## CHAPTER-7

### Findings, Recommendation & Conclusion

#### 7.1 Findings

Based on observation and interpretation I found some positive and negative side of JBL. Those are given below:

- Bank follows the overall credit assessment and risk grading process according to the sales of Bangladesh Bank.
- Loan & the advances are vital to finance the projects. An appropriate credit distribution system and monitoring will ultimately lead to the profit maximization of banks. It is evident from that the size of JBL loans & advances are increasing over the years.
- Sometime the loan documentation is not fairly done by the branch.
- Some time the document verification is done after loan sanctioning the loan.
- Sometimes it is difficult to collect formal documents and financial statements from the client, means the non-availability of client's detailed information.
- Processing cost is higher compared to the other large-scale loan services provided by the bank because close monitoring and supervision of the credit operation becomes necessary.
- There is Shortage of manpower and Lack of proper training for the employees in credit section of the branch.

#### 7.2 Recommendations

The Following recommendations can be prescribed for the JBL, like:

- The Branch can organize more training program and workshop to make the employees more efficient in their sector.
- The bank has to establish a strong “credit Manual”, so that the clients easily can understand about the credit rules of the bank.

- All the loan documentations have to done honestly. The bank should concentrate more on proper documentation of all types of loans to make the department trust worthy & healthy.
- All the document verifications have to done by the branch before sanction the loan.
- The bank should introduce short term schemes like micro credit for poor & urban people.
- Adequate training on loan and basic accounting should be provided to the clients to make the clients knowledgeable and to create awareness about credit loans.

### **7.3 Conclusion**

It goes without saying that credit policy cannot be isolated from the broader monetary policy of the country. Like any other segment of the economic policy, credit is very important for any financial institution as it generates profit and gear up economic activities of the country. In other words, credit is business and it is input in the production process of the country. Since credit has an inherent risk, therefore proper utilization of the loans are essential to meet the requirements of the borrower. The loan applied for by the borrower must not be employed for unproductive purpose. In this regard, the Janata Bank Limited must closely follow the progress of the loan and the way the borrower is utilizing the funds. In this way the Janata Bank Limited will deter any fake activities on the part of the borrower. Credit evaluation system of Janata Bank Limited is very lengthy process. It has been revised time to time in response to the respective circular of Bangladesh Bank. The overall credit activity of Janata Bank Limited is composed of corporate credit division and credit administration. The credit management system of Janata Bank Limited is more or less effective as recovery position of classified loan is high and classified loan has been decreasing gradually during the year. They always trying to improve their credit policy for minimizing loss and maximizing profit and various measures are undertaken to develop the credit management system.

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