



INTERNSHIP REPORT

On

**“Credit Risk Management: A study on
Southeast Bank Limited”**

Prepared For -

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Submitted By -

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Letter of Transmittal

October 20, 2014

MsNusratNargis
Assistant, Professor
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Subject: **Submission of the Internship report.**

Dear Madam,

It is a great pleasure for me to submit the report assigned to me as part of fulfillment of BBA program. The topic I have covered is "**Credit Risk Management: A study on Southeast Bank Limited**"

The internship program has enlightened my knowledge-depth over the Banking activities mostly the activities relating to Credit. Working on this report was a great opportunity for me to have an exposure to the commercial banking practices of loans and advance related activities in the Banking sector of Bangladesh. I tried to present a comprehensive picture of the workings of a commercial Bank in this area. The report was prepared on the basis of practical work experience in Southeast Bank Limited, New Elephant Road branch, Dhaka.

I have presented my findings as consciously as I could within the time and resource constraints. Should you have any recommendations, suggestions and/or clarification to make this report more useful, kindly let me know.

Sincerely looking forward to your acceptance of this report.

Thank you
Sincerely yours,

.....
Nabila Mousumi

ID – 111-11-1850
BBA

Letter of Acceptance

The report titled “**Credit Risk Management: A study on Southeast Bank Limited**” Submitted as partial requirement of BBA program. This report has been prepared by Nabila Mousumi, ID: 111-11-1850, major in Finance, BBA program at daffodil International university, under my supervision and guidance. This report is approved and accepted.

I wish her every success in life.

Best regards,

.....

MsNusratNargis
Assistant, Professor
Daffodil International University

Student Declaration

Actually, this report is submitted as a fulfillment of the requirement of Bachelor of Business administration. I am Nabila Mousumi hereby declare that the work presented in this report titled **“Credit Risk Management: A study on Southeast Bank Limited”** has been carried out by me and has not been previously submitted to any other University, collage or Organization for any academic qualification, certification, diploma or degree.

.....

Nabila Mousumi
ID: 111-11-1850
BBA

ACKNOWLEDGEMENT

I owe a debt of gratitude to all those who have helped me with this report. This report would not have been produced without the utmost cooperation of some individuals to whom I hereby take the opportunity to express my profound gratitude. So many people have helped me in so many ways that I hesitate to list them, fearing that I may miss someone. Accepting this risk, I will begin with Assistant Professor Ms, NusratNargis, my supervisor, for his valuable guidance in preparing this report and providing me with numerous materials that were very useful in the development of this report. He helped me whenever I needed.

I am indebted to the employees of Southeast bank Limited, New Elephant Road branch as they helped me cordially to perform the internship program. I would like to thank the employees as well as clients of Southeast Bank Limited who have taken part in research and assisted me with very useful information. I would also like to thank Mr. ShahidAtiqul Islam, the Head of New Elephant Road Branch of Southeast Bank Limited for his valuable guidance and assistance.

I would like to thank all the concerned persons and respected teachers of BBA program of Daffodil University for their assistance and cooperation during my entire BBA program.

As always my greatest gratitude is to my family-past, present & future. My parents gave birth and helped me understand love and how to give it. I am grateful to them forever.

Finally all of the praises, gratitude and thanks are due to Almighty Allah who has created us to explore the hidden facts of nature for the benefit of mankind and has enabled me to finish this work.

EXECUTIVE SUMMARY

Commercial Banks perform a very important service in all sectors of the economy by providing facilities for the pooling of savings and making them available for economically and socially desirable purposes. Thus banks provide different types of services to different types of people of society by receiving deposit from the sufficient side of society and thereby investing it to deficit side of the society.

There has been a proliferation of commercial banks in Bangladesh in the last twelve years, which has created a great deal of competition. SEBL is aware of the changes in the economic makeup of the country and is continually striving to maintain its leadership both in the corporate and the personal banking sector in spite of the competition from both domestic private banks as well as new multinational ones.

This study mainly tries to find credit policy, credit approval process also find out credit disbursement credit allocation and also risk grading credit recovery policy.

This study also finds that credit risk management needs to be a robust process that enables banks to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders.

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Chapter: 1

Introduction



1.1 Background of the Study:

Credit or lending is the main source of income of commercial Banks. Banks lend money to the borrowers to generate profit from the source. But extending credit is always risky. Loans get irregular due to some inherent causes of some of the borrowers. This default culture is a common one in Bangladesh, which is the main reason of concern for the Banking Industry of this country. That is why proper and accurate management system is required to minimize these credit risks. At this outset the report is prepared to give a vivid idea about the topic.

Being an employee of Southeast Bank Limited, New Elephant Road Branch, Credit Department it was understood that major credit risk areas are very much important to identify. In this study, it was tried to find out Bank's suggested best practices guideline for managing credit risk and Southeast Bank Limited existing credit policy.

The borrowers of a bank range from individuals to partnership, companies, institutions, societies, corporations, etc. engaged in such activities as business, industry, transport, farming, etc. The nature of their activities, the location of business, financial stability, earning and repayment capacity, purpose of advance, and securities, all differ and their degree of risks also differ. Although all lending involves risks, yet a bank has to go with it for earning profit and economic upliftment as well. But the fact is this, while going on lending; banks should be careful in selecting borrower and must give paramount importance to it.

The process of credit risk management starts from the very beginning of appraisal of a proposal and it continues until final recovery. In between this process there remain several factors and indicators. Lending is a regular function of Banks. But as lending is risky, therefore it should be monitored properly. The risk of non recovery is always with a credit facility. In this respect Credit Risk Management is one of the most important matters of consideration to the Banks.

It is the case of default culture in Bangladesh, the sufferings of the commercial Banks, and policies & procedures adopted by SEBL to manage credit risk which are the main concerns of this study.

1.2 Statement of the Problem:

Banking industry is observed now-a-days the most prolific sector in the economy in Bangladesh. Over the last few years, banking business has undergone a lot of changes due to deregulation,

technological innovation, and globalization and policy adoption as prescribed by the donor agencies. All the changes are aimed to make banks more accountable, dedicated and consumer friendly.

Bangladesh Bank undertook a project to review the global best practices in the banking sector and examines in the possibility of introducing these in the banking industry of Bangladesh. Four 'Focus Groups' were formed with participation from Nationalized Commercial Banks, Private Commercial Banks & Foreign Banks with representatives from the Bangladesh Bank as team coordinators to look into the practices of the best performing banks both at home and abroad. These focus groups identified and selected five core risk areas and produce a document that would be a basic risk management model for each of the five 'core' risk areas of banking. The five core risk areas are as follows:

a) Credit Risks, b) Asset and Liability/Balance Sheet Risks, c) Foreign Exchange Risks, d) Internal Control and Compliance Risks and e) Money Laundering Risks. Recently another risk is identified which is IT risk.

Bangladesh Bank in one of its circular (BRPD Circular no.17) advised the commercial banks of Bangladesh to put in place an effective risk management system based on the guidelines sent to them.

It is well known that one of the most serious problems of the banks and financial institutions in Bangladesh pertains to 'classified loans' (non-performing loans) caused by default in repayment by the borrower. This is not a new problem; rather it has been created over the years because of many reasons. Whatever may be the reasons, the net effect of the non-performing loans or Assets (N.P.A) on the banks is disastrous. Banks needs to keep a huge provision out of profits against those classified advances. As a result profitability remains low adversely affecting deposit and lending rates, capital adequacy ratio and management efficiency of the banks. Over and above, the problem is also affecting industrialization of the country since banks suffer from shortage of funds. As such analysis of credit risk & its effective management has been selected to be the topic of the study.

1.3 **Objectives of the Study:**

- 1 To analyze various credit policies of SEBL.
2. To analyze the role of credit policy guidelines of SEBL.
3. To find out credit risk management procedures at SEBL.
4. To recommend some suggestions for further development of SEBL.

1.4 **Methodology of the study**

The study requires various types of information about service policies, procedures and methods of General Banking operation and all other departmental operation. Both primary and secondary data available have been used in preparing this report.

Primary Sources:

- (i) Practical desk work and direct observation
- (ii) Face to face conversation with the officer and clients
- (iii) Consultation with the Following Persons:
 - Mr. Salah Uddin Ahmed (Vice- Precedent of New Elephant Road Branch)
 - Sheikh Aunonnaislam(Junior Officer, General banking & Account)
 - Khushnuma Yasmin Zaman&ShahanewasKawsari (Clearing Section)

Secondary Sources:

- (i) Annual report (2012) of the Southeast Bank Ltd.
- (ii) Files & Folders of the Southeast Bank Ltd
- (iii) Memos & Circulars of the Southeast Bank Ltd
- (iv) Daily diary (containing my activities of practical orientation) maintained by me,
- (v) Various publications on Bank,
- (vi) Different circulars sent by Head Office of the Southeast Bank Ltd and the Bangladesh Bank.
- (vii) Websites.

1.5 Limitations of the study:

This study only considers credit risks of Southeast Bank limited. It will not cover-

- Asset and liability/ balance sheet risk, Foreign Exchange Risk, Internal control And compliance risk, Money laundering Risk & IT risk While preparing this report, the main limitation that was faced is lack of information. Dealing with such a matter like Credit Risk Management was considered as highly sensitive by the respective organization. Therefore enough access to the information that was needed was not possible. Being a service holder lots of troubles were faced to make time to prepare the report by utilizing all the efforts. Sample size is small. The topic is theoretical one and therefore use of analytical tools got limitations. The following are some of the limitations which were faced while preparing this report are mentioned here:- Time was the most important limitation in preparation of the internship report which disabled many opportunities for a comprehensive study.- Relevant papers and documents were not available sufficiently. In many cases up to date information is not available.- As the officers were very busy with their daily works, they could provide very little time:- Problems regarding lack of experience in the field of research work.

Chapter-2

THE ORGANIZATION-SEBL



2.1 Background of Southeast Bank Limited:

The emergence of Southeast Bank Limited was at the juncture of liberalization of global economic activities. The company philosophy - "**A Bank with Vision**" has been precisely an essence of the legend of success in the Asian countries.

Southeast Bank Limited is a scheduled commercial bank in the private sector established under the ambit of Bank Company Act, 1991 and incorporated as a Public Limited Company under Companies Act, 1994 on March 12, 1995. The Bank started commercial banking operations on May 25, 1995. During this short span of time the Bank is successful in positioning itself as a progressive and dynamic financial institution in the country. During this short span of time the Bank is successful in positioning itself as a progressive and dynamic financial institution in the country. Thus within this very short period of time it has been able to create an image and earned significant reputation in the country's banking sector as a Bank with Vision.

2.2 Nature of business:

A banker or bank is a financial institution that acts as a payment agent for customers, and borrows and lends money. Southeast Bank Limited is a scheduled commercial bank in the private sector. The bank had been widely acclaimed by the business community, from small entrepreneurs to large traders and industrial conglomerates, including the top-rated corporate borrowers for its forward - looking business outlook and innovative financial solutions. Marketing and selling of different types of banking products are the main business of the bank. The main function can be summarized as it accepts money as deposit from the sufficient side of the society and lends it to deficit side of the society serving as an agent in between them through different types of deposit and lending products. It also plays a vital role in developing industries in the country and supports the country in its international business. The Banks acts as payment agents by conducting checking or current accounts for customers, paying cheques drawn by customers on the bank, and collecting cheques deposited to customers' accounts. Southeast Bank Limited is the preferred choice in banking for friendly and personalized services, cutting edge technology, tailored solutions for business needs, global reach in trade and commerce and high yield on investments, assuring Excellence in Banking Services.

2.3 **Organizational overview:**

Southeast Bank Ltd., a second generation private bank, emerged in 1995. Currently the authorized capital of the bank is Tk.3,500 million and the capital & reserve stand at Tk.6,468.36 million as on December 31, 2007. Southeast Bank Limited is the leading private sector bank in Bangladesh offering full range of Personal, Corporate, International Trade, Foreign Exchange, Lease Finance and Capital Market Services. The bank, in the meantime, successfully completed almost thirteen years of banking operations recording significant growth in all the performance indicators. Operational excellence coupled with qualitative improvements continued to be of paramount importance to the bank. As on December 31, 2007, the bank had 38 branches across the country including 5 Islamic Banking Branches. Total number of employees stood at 1,116 (both banking & non banking) as on December 31, 2007. The registered office (Head Office) of Southeast Bank Limited is at 1 Dilkusha C/A, Dhaka-1000.

2.4 **Mission**

The Mission of the bank is as follows:-

- Southeast Bank Limited provide high quality financial services to strengthen the well being and success of individual, industries and business communities.
- Its aim to ensure their competitive advantages by upgrading banking technology and information system.
- SEBL intends to play more important role in economic development of Bangladesh and its financial relations with the rest of the world by interlining both modernistic and international operations.
- SEBL encourages investors to boost up share market.
- The bank creates wealth for the shareholders.
- The bank believes in strong capitalization.
- It maintains high standard of corporate and business ethics.
- Southeast Bank Limited extend highest quality of services, which attracts the customers to choose them first.

- The bank creates wealth for the shareholders.
- The bank maintains congenial atmosphere for which people are proud and eager to work with Southeast Bank Limited.
- Southeast Bank Limited intend to provide better benefits to their customers and good returns to their shareholders.
- The bank intends to meet the needs of their clients and enhance their profitability by creating corporate culture.
- Balanced growth strategy.

2.5 Vision

The vision of the bank is stated as follows:

“To stand out as a pioneer banking institution in Bangladesh and contribute significantly to the national economy.”

2.6 Goal of the Bank

- To become the leading profitable bank.
- To maximize the wealth of the shareholders.
- To earn satisfactory rate of return on investment by providing wide range of banking service.

Chapter- 3

Analysis of credit risk Management



3.1 Credit

In banking terminology, credit refers to the loans and advances made by the bank to its customers or borrowers. Bank credit is a credit by which a person who has given the required security to a bank has liberty to draw to a certain extent agreed upon. It is an arrangement for deferred payment of a loan or purchase.

Credit means a provision of, or commitment to provide, funds or substitutes for funds, to a borrower, including off-balance sheet transactions, customers, lines of credit, overdrafts, bills purchased and discounted, finance leases.

3.2 Credit Risk

Risk may be defined in terms of the variability of possible outcomes from a given investment. If the outcomes is certain and there is no variability-hence no risk. Another way risk means the exposure to a change of loss or damage. Risk is the element of uncertainty or possibility of loss that exist in any business transaction. Credit risk is the likelihood that a borrower or counterparty will be unsuccessful to meet its obligation in accordance with agreed terms and conditions. Also we can say credit risk means as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

3.3 Credit risk Management

Risk Management is a discipline at the core of every financial institution and encompasses all the activities that affects its risk profits. It involves identification, Measurement, Aggregation, planning and Management, as well as monitoring.

› **Identification**

A bank's risks have to be identified before they can be measured and managed. Typically banks distinguish the following risk categories:

- Credit risk
- Market risk
- Operational risk

› **Measurement**

The consistent assessment of the three types of risks is an essential prerequisite for successful risk management. While the development of concepts for the assessment of market risks has shown considerable progress, the methods to measure credit risks and operational risks are not as sophisticated yet due to the limited availability of historical data.

› Aggregation

When aggregating risks, it is important to take into account correlation effects which cause a bank's overall risk to differ from the sum of the individual risks. This applies to risks both within a risk category as well as across different risk categories.

› Planning and management

Furthermore, risk management has the function of planning the bank's overall risk position and actively managing the risks based on these plans.

- Risk-adjusted pricing of individual loan transactions
- Setting of risk limits for individual positions or portfolios
- Use of guarantees and credit insurance
- Securitization of risks
- Buying and selling of assets

› Monitoring

Risk monitoring is used to check whether the risks actually incurred lie within the prescribed limits, thus ensuring an institution's capacity to bear these risks. In addition, the effectiveness of the measures implemented in risk controlling is measured, and new impulses are generated if necessary.

3.4 CIB data collection:

Management information system is system whereby top management gets the information it needs to make decision. Without the help of information system a modern banker can not take right decision as things have got critical these days. A banker can get information from different sources. On the other hand he himself is the source of information for Bangladesh Bank or other financial institutions.

Credit Information Bureau:

Information on clients or loans and advances of clients can be collected from different sources like-

- CIB Report

- Confidential reports from other Banks
- Loan Application (Declaration of Liabilities & Assets)
- Account Statement (Summation balancing)
- Financial statements
- Market report
- Personal Interview
- Other sources (i.e. press, tax authority, friends, inspection, neighbors, etc.)

- **How To Compute Credit Risk Grading:**

According to the importance of risk profile, the following weight ages are proposed for corresponding principal risks/components.

<u>Principal Risk Components:</u>	<u>Weight:</u>
Financial Risk	50%
Business/Industry Risk	18%
Management Risk	12%
Security Risk	10%
Relationship Risk	10%

3.5 Analysis of performance indicators:

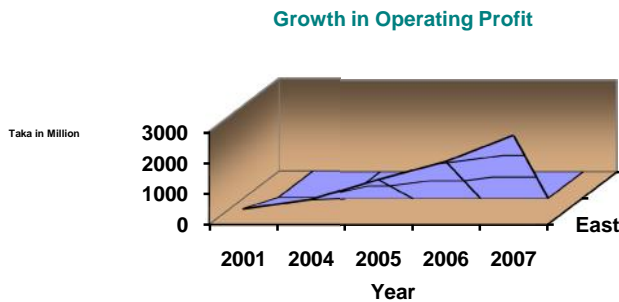
Southeast Bank Limited is one of the most successful private sector commercial bank in our country, though it started its operation only thirteen years back. It has achieved the trust of the general people and made reasonable contribution to the economy of the country by helping the people investing allowing credit facility.

Southeast Bank has a relishing heritage. It has been growing fast as one of the leaders of the new generation banks in the private sector in respect of business and profitability as it is evident from the financial statements for the last 13 years.

Today, Southeast bank is a synonym of quality banking products. It has a diverse array of carefully tailored products and services to cater the needs of all customer segments.

- **Profit:**

In the growth graph, it has generated profit of **Tk.1222.97 million** after provision and income tax in the **year2007**. The curve keeps soaring upward with the dawn of everyday. Presently Southeast bank is one of the leading and most successful banking institutions in Bangladesh with a total **asset base of Tk.64370.69 million** as on 31.12.2007.



Capital and Reserve:

The authorized Capital of the Bank is 3,500.00 million BDT and the Paid up Capital is 2281.76 million BDT as on 31.12.2007. The total equity (capital & reserve) of the bank as on December 31, 2007 stood at Tk. 6,468.36 million.

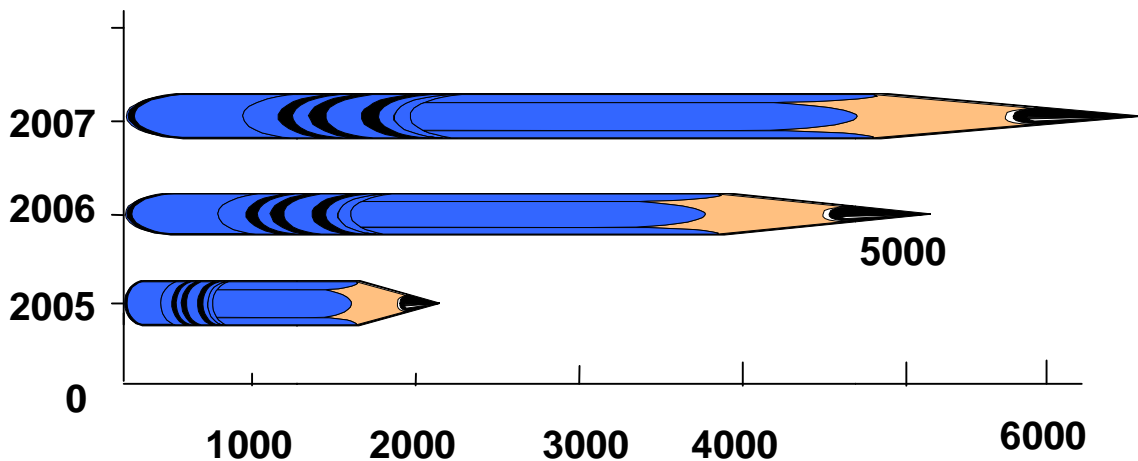


Fig.: Equity and Reserves

Taka in million
(Source: Annual Report, 2007)

- **Deposits:**

As of December 2007 total deposits of the bank stood at Tk. 55,474.05 million with an increase @ 20.45% compared to previous year.

Deposit of SEBL

Tk in million

Year	Deposit
2005	38,258.15
2006	46,056.18
2007	55,474.05

- **Loans and Advances:**

The Bank recorded a 17.05% growth in advances with a total loans and advances portfolio of Tk. 48,164.60 million at the end of December 2007 compared to Tk. 41,147.28 million in 2006.

Loans & Advances of SEBL

Tk in million

Year	Loans & Advances
2005	32,551.09
2006	41,147.28
2007	48,164.60

- **International Trade:**

International Trade is an important constituent of the business portfolio of the bank. The import value stood at Tk.38,470.34 million in 2007 with a growth of 9.52% over the volume of 35,125.12 million in 2006. On the other hand, export increased by 11.20% in the year 2007. Total export volume of the Bank amounted to Tk.28,771.36 million in 2007 compared to Tk.25,874.61 million in the previous year.

Southeast Bank Limited has been licensed by the Government of Bangladesh as a Scheduled commercial bank in the private sector in pursuance of the policy of liberalization of banking and financial services and facilities in Bangladesh. In view of the above, the Bank within a period of 13 years of its operation achieved a remarkable success and met up capital adequacy requirement of Bangladesh Bank. The Bank has been growing fast as one of the leaders of the new generation banks in the private sector in respect of business and profitability as it is evident from the financial statements for the last 13 years.

3.6 CREDIT INVESTIGATION

Lending is one of the most important functions of a bank and with the modern concept of social order and the participation of commercial banks in various phases of commercial, industrial, agricultural and other economic activities of the country, it is of paramount importance that banks have to be very careful while choosing a borrower. Security is not the only thing to be relied upon.

A variety of commercial commodities are being offered as security for advance. It is neither possible nor feasible for the banker to conduct a detailed inspection of all the stocks to ascertain their quality and quantity. He has to depend upon the borrower's records and can conduct only what only what is known as a "test check" by physically verifying some of the stocks in bags or tins out of many pledged or hypothecated goods.

Chapter- 4

CREDIT RISK AND MANAGEMENT OF THE RISK



4.1 Overview:

The word credit comes from the Latin word “Credo” meaning “I believe”. It is a lender’s trust in a person’s/ firm’s/ 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 as a whole. Actually the credit portfolio does not only constitute the banks asset structure but also a vital factor of the bank’s success. The overall success in credit management depends on the banks credit policy, portfolio of credit, monitoring, and supervision and follow-up of the loan and advance. Therefore, while analyzing the credit management of Southeast Bank Ltd., it is required to analyze its credit policy, credit procedure and quality of credit portfolio. The primary function of commercial banks is the extension of credit to worthy borrowers. Borrowing creates leverage, magnifying profits and losses – a relatively small investment, if utilized optimally, i.e. “put in where the money is”, reaps larger benefits. Then again, even larger investments utilized similarly might give benefits of an even larger proportion. For example, if a business has a return on investments (**R**) of 10%, an investment \$1000 will yields of only \$100, where as a credit from a bank of \$9000, added to the initial investment, would yield about \$1000 (even after paying off bank loans). This way, in making credit available, commercial banks are rendering a great social service; through their actions, production is increased capital investments are expanded, and a higher standard of living is realized. A prudent banker should always adhere to the following general principles of lending funds to his customers, e.g.(1) Background, Character and ability of the Borrowers (2) Purpose of the facility (3) Term of facility (4) Safety (5) Security (6) Profitability (7) Sources of repayment (8) Diversity. He should never put “ALL HIS EGGS” in one basket. It should be remembered that selection of appropriate borrowers, proper follow-up and end-use supervision through constant close contact with the borrowers, are the cornerstones for timely recovery of credit. 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 maximizing the return on the invested fund. Continuous supervision, monitoring and follow-up are highly required for ensuring the timely repayment and minimizing the default.

Main functions:

- Safeguarding currency stability and its convertibility.
- Developing the money market in connection with money stability and ensuring its regulation.
- Management of public exchange reserves.
- Acting as the agent for receiving money from the sufficient side society and lending it to the deficit side of the society.
- Financial agent of the Treasury

4.2 Borrower selection

The process of selecting borrowers for sanctioning loans follows as under:

The C's of Good & Bad Loan: The Branch manager of SEBL tries to judge the possible client based on some criteria. These criteria are called the C's of good and bad loans. These C's are described below:

1. Character

The outcome of analyzing the character is to have overall idea about the integrity, experience, and business sense of the borrower. Two variables; Interaction/interview, and Market Research are used to analyze the character of the borrower.

2. Capital

For identifying the capital invested in the business can be disclosed using the following indicators.

a) Financial Statements, b) Receivable, Payable, statements to practically assess the business positions. Net worth through financial statements or from declaration of Assets & Liabilities.

3. Capacity (Competence)

Capability of the borrower in running the business is highly emphasized in the time of selecting a good borrower.

- a) Entrepreneurship skills i.e. risk taking attitude shown by equity mobilization.
- b) Management competencies both marketing and products detail, ability to take decision,

c) Resilience or shock absorption: Connection, Back up (if first time falls second lines come to help.)

4. Collateral

Make sure that there is a “second way out “of a credit, but do not allow that to drive the credit decision.

5. Cash Follow:

Cash flow is the vital factor that is used to identify whether the borrower will have enough cash to repay the loan or advance. Cash keeps the liquidity to ensure repayment. The relationship manager tries to identify the annual cash flow from the submitted statements.

6. Conditions:

Understanding the business and economic conditions can and will change after the loan is made.

7. Complacency:

Do not rely on past history to continue. Stay alert to what can go wrong in any loan.

8. Carelessness:

Remember that documentation, follow-up and consistent monitoring are essential to high quality loan portfolios.

9. Communication:

Share credit objectives and credit decision making both vertically and laterally within the bank.

10. Contingencies:

Make sure that you understand the risks; particularly the downside possibilities and that you structure and price the loan consistently with that understanding.

11. Competition:

Do not get swept away by what others are doing.

12. Credit Query:

The loans and advance department gets a form filled up by the party seeking a lot of information.

4.3 Credit Monitoring & Internal Audit:

Caring for the loan at post sanction stage in order to ensure the safety of the money lent. The term "Credit Monitoring" is consists of two different terms. These are "Credit decision" and "Credit Control". When a customer applies for some credit facility the bank has to take decision measuring different aspects of borrowers' proposals. Again, after giving credit facilities to the customer, the bank has to monitor the borrowers' account how he is performing. This is termed as "Credit Control".

The monitoring process of the PCBs by Bangladesh Bank includes two phases: the off-site process and the on-site process. The off site process is done on the basis of the reports sent by the individual banks. In this case they send their periodical reports to Bangladesh Bank for monitoring purpose. The on-site process is done by Bangladesh Bank itself. Here, Bangladesh Bank sends its own inspectors to respective banks to monitor their activities. If there is any kind of difference between the two monitoring outputs of the PCBs and the inspectors of Bangladesh Bank, the decisions of the inspectors are taken as final by Bangladesh Bank. To minimize credit losses, monitoring procedures and systems should be in place that provides an early indication of the deteriorating financial health of a borrower. The credit monitoring process in Bank is vested on CAD. The Head of Credit Administration Division will report the exceptional list of assets on daily basis. Loan terms and conditions are monitored, financial statements are received on a regular basis, and any covenant breaches or exceptions are referred to CRM and the credit officer / RM team for timely follow-up.

The account is not having excess over limit. The terms and condition of the sanctioned letter are strictly followed. The value of the collateral security is adequate. There is not any unfavorable situation in market, economy and political conditions, which may endanger the reliability of the borrower account.

✓ Early Alert process:

An Early Alert Account is one that has risks or potential weaknesses of a material nature requiring monitoring, supervision, or close attention by management.

If these weaknesses are left uncorrected, they may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Despite a prudent

credit approval process, loans may still become troubled. Therefore, the Credit Officers / RMs must ensure the early identification and prompt reporting of deteriorating credit signs for swift action to protect the Bank's interest.

An account may be reclassified as a Regular Account from Early Alert Account status when the symptom, or symptoms, causing the Early Alert classification have been regularized or no longer exist. The concurrence of the CRM approval authority is required for conversion from Early Alert Account status to Regular Account status.

Audits are to be carried out annually, to ensure compliance with regulatory guidelines, internal procedures, and Lending Guidelines and Bangladesh Bank requirements.

Security documents are to be prepared in accordance with approval terms and to be legally enforceable. Standard loan facility documentation that must be reviewed by legal counsel. The functions are performed by the Branch. Exceptions should be referred to legal counsel for advice based on authorization from an appropriate executive in CRM.

4.4 Non-performing loans:

Loans where the borrower has failed to repay on time or in [full](#), but which are not considered to be in [default](#); the borrower has merely not 'performed' - ie, met the legal terms of a [contract](#) - but the [bank](#) is still booking [interest](#) due. Non-performance loans spell trouble for [banks](#), which [will](#) often reschedule the [debt](#) with different conditions, rather than allowing it to lie on the [books](#) without producing any [return](#).

Non-Performing Loan (NPL) Monitoring:

The management of problem loans (NPLs) must be a dynamic process, and the associated strategy together with the adequacy of provisions must be regularly reviewed. A process should be established to share the lessons learned from the experience of credit losses in order to update the lending guidelines. On a quarterly basis, a Classified Loan Review (CLR) should be prepared by the RU Account Manager to update the status of the action/recovery plan, review and assess the adequacy of provisions, and modify the bank's strategy as appropriate.

Banks should have a segregated internal audit/control department charged with conducting audits of all departments. Audits should be carried out annually, and should ensure compliance with

regulatory guidelines, internal procedures, lending Guidelines and Bangladesh Bank requirements.

4.5 Credit and marketing Fundamentals of SEBL:

- (a) To place a high priority on the quality of credit exposure, new proposals must meet Bank's credit criteria review for improving risk positions.
- (b) To avoid unnecessary wastage of time, energy and ambiguity a clear, concise and summary type communications should be used.
- (c) To be thoroughly familiar with the Bank's policies and functions.
- (d) To keep the expense burden of credit operations to the barest minimum and endeavor to improve the cost efficiency of credit operations.
- (e) To contribute one's best in all matters where his approval, concurrence or other action is involved.
- (f) To apply strong commonsense in all credit matters by raising questions- does this make sense? Is there a better way? How to improve on this?
- (g) To avoid all temptations which may jeopardize or compromise the Bank's risk assets.

While extending credit, Banks suffer from the risk of non-recovery. That is why it is necessary for Banks to assess risks in extending credit and thereby appraise proposals. They also need to monitor all credit facilities to minimize risks.

Facility parameters (e.g., maximum size, maximum tenor, and covenant and security requirements) should be clearly stated. For example, the following parameters are adopted:

4.6 Role of Credit Policy of SEBL to combat Credit Risks:

One of the most important ways, a bank can make sure that its loan meet organizational and regulatory standards and they are profitable is to establish a loan policy. Such a policy gives loan management a specific guideline in making individual loans decisions and in shaping the bank's overall loan portfolio.

The credit policy of any banking institution is a combination of certain accepted, time tested standards and other dynamic factors dictated by the realities of changing situations in different market places.

The accepted standards relate to safety, liquidity and profitability of the advance whereas the dynamic factors relate to aspects such as the nature and extent of risk, interest or margin, credit

spread and credit dispersal. General guidelines about the conduct of advances are issued by Head Office. In all business dealings, officers and employees must be guided by the principles of honesty, integrity and safe-guard the interest of the depositors and shareholders of the Bank. They should strictly adhere to the Banking Laws, Rules and Regulations of the Govt. of Bangladesh, the instructions issued by the Bangladesh Bank/Head Office from time to time which affect the business practices of the Bank. However, the key to safe, liquid, healthy and profitable credit operation lies in the quality of judgment used by the officers making lending decisions and their knowledge of the borrowers and the market place.

The Credit **Policy Guideline** of SEBL has been organized into the following sections: Policy Guidelines, Organizational Structure and Responsibilities, and Procedural Guidelines.

- **Principles of Lending:**

In the feature, credit principles include the general guidelines of providing credit by branch manager or credit officer. In Southeast Bank Limited they follow the following guidelines while giving loan and advance to the clients.

Credit advancement shall focus on the development and enhancement of customer relationship.

All credit extension must comply with the requirements of Bank's Memorandum and Article of Association, Banking Company's Act, Bangladesh Bank's instructions, other rules and regulation as amended from time to time.

Loans and advances shall normally be financed from customer's deposit and not out of temporary funds or borrowing from other banks. As such the Banks are required to follow certain basic principles of lending.

The basic principles are:

Safety- "Safety is the first" which depends upon i) the appropriate security offered by the borrower, and ii) the repaying capacity & willingness of the borrower to repay the loan with interest. The attitude of the borrower is also an important consideration;

Liquidity means the inflow of cash into the project in course of its operation. The profit is the blood for any commercial institution. Before approval of any loan project the bank authority has to be sure that the proposed project will be a profitable venture.

Profitability is assessed from the projected profit and loss statement.

The **purpose** should be productive so that the money not only safe but also provides a definite source of repayment.

4.7 TYPES OF CREDIT FACILITIES EXTENDED BY SEBL

The Credit facilities extended by SEBL can be divided in to two ways:













CREDIT	
Funded	Non - Funded
<ul style="list-style-type: none">  Overdraft  Consumer Credit  Loan  PAD  LTR  Packing Credit  Hire purchase  Staff loan  Term Loan  Cash credit against hypothecation 	<ul style="list-style-type: none">  Letter of Credit  Bank guarantee

Figure: 5-1 Types of Credit Facilities offered by SEBL

4.8 CASH CREDIT AGAINST HYPOTHECATION

Cash credit is another method of lending by SEBL. Under this system, the banker specifies a limit called the cash credit limit, for each customer, up to which the customer permitted to borrow against the security of tangible assets or guarantees.

Cash credit in its truest sense is against pledge of goods. Cash credit is sometimes allowed against hypothecation of goods.

In case of cash credit hypothecation the ownership and possession of the goods remain with the borrower. By virtue of the hypothecation agreement the bank can take possession of the goods hypothecated, if the borrower defaults.

Eligibility: Hypothecation advances are normally allowed by bank to limited companies and businessmen for their working capital and not for any capital investment.

Rate of Interest: 15% per annum.

Renew system: It can be renewed after one year.

Terms and Conditions:

- I. Insurance policy to be obtained against the stocks to be hypothecated covering fire and RSD risk at the cost of the customer.
- II. Stock report to be submitted on monthly basis.
- III. Banks reserve the right to cancel or call back the sanctioned credit limit.

LETTER OF CREDIT

Opening or issuing letter of credit is one of the important services provided by SEBL. A letter of credit is a document authorizing a bank to pay the bearer a specified sum of money, it provides a useful means of settlement for a foreign trade transaction, the purchaser establishing a credit in favor of his credit at a bank.

Letter of Credit is of two types:

1. Traveler's letter of credit issued for the convenience of the traveling public, and
2. Letter of commercial credit issued for the purpose of facilitating trade transaction.

Eligibility: Letter of credit facilities are given to exporter, manufacturers/producers.

Terms and Conditions:

- I. It should stipulate the name of the loan/credit/Grant.
- II. It should bear the name of the designated bank.

- III. Items mentioned in the LCA form must contain with the permissible items.
- IV. The bank officers periodically inspect the goods and verify that they conform to the quantity and quality etc. as mentioned the particular letter of credit.
- V. In case of first class customers, the facility may, however be granted against form contracts with overseas buyers.

Rate of Commission: 0.4% for 90 days.

0.6% for 120 days.

LETTER OF GUARANTEE:

A letter of guarantee has special significance in the business of banking as a means to ensure safety of funds lent to the customers. In case, the borrower is unable to provide the security of tangible assets or, the value of the assets falls below the amount of the loans, and the borrower's personal security is not considered sufficient, an additional security is sought by the banker in the form of a guarantee given by a third person.

Terms and Conditions:

- I. The banks legal adviser must verify all the security documents.
- II. When the principal debtor defaults in fulfilling this obligation or promise the liability bestow on guarantor.
- III. Bank reserves the right to cancel or amend the terms and condition partly or wholly at its direction without assigning any reason whatsoever.

4.9 SWOT analysis:

Credit risk & its management has been the matter of great concern for the commercial banks since long. Actions of different authorities are persistently striving to mitigate credit risks. We find in the process success as well as hurdles. Credit risk management is a process of financial institutions and it has its own Strengths, Weaknesses, Opportunities and Threats. SWOT Analysis is an important tool for the purpose. Following is given the SWOT analysis of The Southeast Bank:

Strengths

1. Qualified mid level officials and talented management terms are operating the overall business.
2. Agreement with foreign banks and financial institution.
3. The banking network.
4. Quality of services.
5. Realistic decisions by management.
6. Ability to afford huge investment in business when needed.
7. Reputation of the bank.

Weaknesses

1. Lack of advertising and promotional activities.
2. Lack of employee satisfaction.
3. Lack of resources when needed.
4. Relatively uncomfortable working environment comparing to industry competitors.
5. Lack of administrative control over all level of the bank.
6. Lack of real qualified employees in junior level.

Opportunities

1. The bank easily can capture the largest market share in Bangladesh.
2. Opportunity of introducing new generation banking in Bangladesh.
3. Opportunity of customer service improvements.
4. Opportunity to enter and invest innovative business sectors.

Threats

1. Rapid growth of industry competitors.
2. Innovation skill of industry competitors.
3. Political environment.

Chapter- 5

Findings, Recommendation & Conclusion



Findings

- ◆ They do not provide the update information
- ◆ Their service in delay
- ◆ Lacks aggressive advertising and promotion
- ◆ No separate R&D division
- ◆ Few owned ATM Booth
- ◆ Procedure of credit facility is long
- ◆ Lack of technological expertise
- ◆ Growing Competitors and high rate of interest

Recommendations

- They should provide more information about their products nature to the Customers.
- SEBL should be avoiding the delay in service.
- It should necessary to appoint sufficient and efficient manpower
- They should improve relationship with Bangladesh Bank
- They should avoid nepotism and favoritism
- Employees/ officers have to properly maintain their important things such as file, papers, documents etc.
- The SEBL should focus on proper monitoring and follow up the activities of general banking and other facilities
- SEBL should have to provide more attractive product and service to the client. and keep high rate of interest competing with other banks to satisfy their client.

Conclusion

In today's world of business without bank's co-operation, it is almost impossible to run any business or production unit of business. Southeast Bank Limited is playing a vital role in the economic development of Bangladesh by financing import and exports of the country and helping the businesses by providing funds to run. There are lots of local and foreign banks competing in banking industry in Bangladesh. All of these banks are offering almost the same products and services. But the way they provide the services are different from each other. So people choose their bank according to their satisfaction and needs. Success in the banking business largely depends on some factors like effective lending, good customer service, a good management and a good training program, effective implementation of plans, policies and programs.

The Southeast Bank Limited is keeping its promises for about fifteen years among them very successfully. In this competitive market Southeast Bank has to compete not only the others commercial banks but also the public banks and other financial institution also. In near future I think bank and mobile companies will come together to foster the banking service and make it available to people's hand. To survive in this dynamic market and lead it from the front the bank must take every initiative very wisely and so far they have successfully utilized their human resource efficiently compare to other private and public banks and satisfy their customers' needs.

In conclusion, the research has tried to put strong focus on each integral part proportionately and gained the ability to fulfill the specific and broad objectives. The customer satisfaction and related concepts, attributes, measurement, techniques are described, applied and disseminated in a manner that makes it easily understandable and recommendable to solve the problem. If the decision making authority places little attention to the recommendation that has made by research findings, would pave the way success and satisfaction.

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