



**Daffodil**  
*International*  
**University**

Internship Affiliation Report on  
**“Credit Management of Social Islami Bank Limited- A  
study on Agargaon Branch, Dhaka.”**

**Supervised By:-**

Md. Rafiqul Islam  
Professor  
Department of Business Administration  
Faculty of Business & Economics  
Daffodil International University

**Prepared By:-**

Shalah Ahammad  
ID: 171-14-2281  
Major: Finance, Batch: 46<sup>th</sup>  
Program: MBA  
Department of Business Administration

Date of Submission: 16-05-2018

Daffodil International University

## Letter of Transmittal

Date: 16-05-2018

To  
Md. Rafiqul Islam  
Professor  
Faculty of Business & Economics  
Daffodil International University

**Subject: Submission of Internship Affiliation Report.**

Dear Sir,

I am very glad to submit my internship report on “**Credit Management of Social Islami Bank Limited- A study on Agargaon Branch**”. This is an important requirement for the completion of MBA program. This report is the result of the Internship Program which I have complete in Social Islami Bank Limited at Agargaon Branch. I found the study to be interesting, beneficial and knowledgeable and I have tried in my level best to make the report informative and effective.

The internship program and preparation of this report have given me the opportunity going about the overall general banking activities of SIBL. I know that, the experience which I have acquired in this Internship Program which I submit, will be a valuable asset to my life. Working with such an interesting program has given me the opportunity to achieve experience, which will be helpful to my future career.

I also want to glad to your support and patience with me. There may be some mistakes or lacking by reason of some limitations. Therefore, I would be highly be obliged if you would kindly consider my limitations.

Sincerely Yours,



Shalah Ahammad

ID No: 171-14-2281

MBA Program, Batch- 46th

Department of Business Administration

Daffodil International University

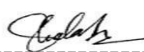
## Declaration

I do hereby publish that the work submitted in this internship report titled “**Credit Management of Social Islami Bank Limited- A study on Agargaon Branch**” Is an original work done by me under the supervision of Md. Rafiqul Islam, Professor, Faculty of Business & Economics, Daffodil International University.

No part in this report has been previously submitted from any other University/ College/ Institutions/ Organizations in any academic certificate/ degree/ diploma/ qualification. The work I have presented does not breach any existing copyright and no portion to this report is copied from any work done by anyone.

Thanks and Regards

Yours Truly,

  
-----

Shalah Ahammad

ID No: 171-14-2281

MBA Program, Batch- 46th

Department of Business Administration

Daffodil International University

# Certificate of Approval



I am pleased to certify that the Internship Report on “**Credit Management of Social Islami Bank Limited- A study on Agargaon Branch**”. Prepared by **Shalah Ahammad** bearing **ID NO: 171-14-2281** of the Department of Business Administration (Major in Finance) is approved for Presentation and Defense. Shalah Ahammad worked with “Social Islami Bank Limited (SIBL)” as an intern under my supervision. He completed the work during the Fall-2018 semester. I am also pleased to certify that the data and the findings presented in the report seem to be authentic.

Shalah Ahammad bears a good moral character and a very good personality. It has indeed been a great pleasure working with him. I wish him all success in life.

## Supervisor

Md. Rafiqul Islam

Professor

Department of Business Administration

Faculty of Business & Economics

Daffodil International University

# ACKNOWLEDGEMENT

First, I would thank to express my gratitude to almighty for enabling me the strength and opportunity in complete the report in the schedule time successfully. I take this privilege to deliver my pleasing to each and every people who are involved with me in every phase of our lives.

Then I am heartily grateful of my supervisor Md. Rafiqul Islam, professor, Department of Business Administration, Daffodil International University. This report is prepared under his excellent inspiration, friendly guidance, deep able suggestions and sagacious advice during my internship period. His helpful behavior & authorize have made the report a good art.

I am greatly thanks to Asif Hossain Sunny Social Islami Bank Ltd. Very special thanks to Mr. Belal Ahmed, Fast Assistant Vice President (FAVP), Agargaon Branch, Social Islami Bank Ltd. for assisting me in preparing this internship report. The other personnel, staffs and employees of Agargaon Branch of Social Islami Bank Ltd. also assisted me to go through the banking activities. Their heartily support during the internship program give me easily to complete the report successfully.

I also like to thanks my course teacher and the Department for helping such academic work.

Finally, I declare my profound thank to my parents, relatives and friends who gave me the mental support to complete my report.

## Executive Summary

The internship report is must for completing MBA program which is created to reduce gap into the theoretical knowledge and real life experience. To completing the two months internship program we get many relevant subject what we found throughout the whole program from our documents. It is created to have a practical experience while ending through the theoretical understanding. This report is the result of 2-months internship program from Social Islami Bank Limited, Agargao Branch. In present, necessity for a bank as a financial institution. These non-financial company play a main role in the field of financial level of a country because this sector is the most stable financial institutions of any economy.

In the 1st chapter, I have discussed the Introduction.

In Chapter 2, I have read about the profile of Social Islami Bank Ltd. overview by which we will know about history, important vision and mission and objective of SIBL & also objective of my report. On the next Chapter, I have published General Banking Activities. Basically I have discussed my work related activities in SIBL – Agargaon Branch. On next, I mentioned SOWT analysis and findings associated with the organization and this report. I have also discussed about what I have learnt during the internship at Agargaon.

Lastly I have given recommendations, conclusion and references.

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# CHAPTER ONE

# INTRODUCTION



## **1.0 Introduction:**

### **1.1 Rationale for Selecting the Report:**

The report titled “Credit approval process & managing credit risk in Social Islami Bank Limited-Agargaon Branch” prepared to fulfill the requirement of the internship program of the BBA degree in Department of Finance, Daffodil International University-Bangladesh.

Credit department is one of the most important departments in a bank. This department decides whether a person is eligible to take loan or not, in which sectors bank needs to invest money, what risks are involved with it etc. By working in the credit section of SIBL I have earned knowledge about the credit approval process, the modes of recovery and selecting the appropriate place to invest.

By doing this report I had a chance to raise my quality in developing affiliation instruments. So that is why I have prepared this report.

### **1.2 History of Social Islami Bank Limited:**

The SOCIAL ISLAMIC BANK LTD (SIBL), a second-generation commercial bank, operating since 22nd November, 1995 based on Shariah' Principles, has now 139 branches all over the country with two subsidiary companies - SIBL Securities Ltd. & SIBL Investment Ltd. Targeting poverty, SOCIAL ISLAMIC BANK LTD, is indeed a concept of 21st century participatory three sector banking model in one. In the formal sector, it works as an Islamic participatory commercial bank with human face approach to credit and banking on the profit and loss sharing. It has a Non-formal banking sector too with informal finance and investment package that empowers and humanizes real poor family and create local income opportunities and discourages internal migration. The bank has another sector to monetize the voluntary sector and management of Waqf, Mosque properties and has introduced cash Waqf system for the first time in the history of banking. In the formal corporate sector, this Bank, among others, offers the most up-to-date banking services through opening of various types of deposit and investment accounts, financing trade, providing letters of guarantee, opening letters of credit, collection of bills, leasing of equipment and consumers' durable, hire purchase and instalment sale for capital goods, investment in low-cost housing and management of real estates, participatory investment in various industrial, agricultural, transport, educational and health projects and so on.

As a fully licensed commercial bank, Social Islami Bank is being managed by a highly professional and dedicated team with long experience in banking. They constantly focus on understanding and anticipating customer needs. As the banking scenario undergoes

changes so is the bank and it repositions itself in the changed market condition.

Social Islami Bank has already made significant progress within a very short period of its existence. The bank has been graded as a top class bank in the country through internationally accepted CAMELS rating. The bank has already occupied an enviable position among its competitors after achieving success in all areas of business operation.

Social Islami Bank offers all kinds of Commercial Corporate and Personal Banking services covering all segments of society within the framework of Banking Company Act and rules and regulations laid down by our central bank. Diversification of products and services include Corporate Banking, Retail Banking and Consumer Banking right from industry to agriculture, and real state to software.

Social Islami Bank, since its beginning has attached more importance in technology integration. In order to retain competitive edge, investment in technology is always a top agenda and under constant focus. Keeping the network within a reasonable limit, our strategy is to serve the customers through capacity building across multi-delivery channels. Our past performance gives an indication of our strength. We are better placed and poised to take our customers through fast changing times and enable them compete more effectively in the market they operate.

### **1.3 Mission Statement of Social Islami Bank Limited:**

- To build Social Islami Bank Limited into an efficient, market-driven, customer focused institution with good corporate culture.
- Continuous improvement of our business policies, procedure and efficiency through integration of technology at all levels.

### **1.4 Vision of the Social Islami Bank Limited:**

- To be the best private commercial bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability having strong liquidity.

## 1.5 Objectives:

The objectives of the report can be divided into two parts –

- **Broad Objective:** The broad objective of the report is to identify the credit approval processes, risk management and risk control criteria of Social Islami Bank Limited.
- **Specific Objectives:** The specific objectives of this report are as follows:
  - To get an idea about the process of credit management practices of SIBL .
  - To show the sector wise disbursement.
  - To examine the credit recovery performance of SIBL .
  - To present the major problems of SIBL .
  - To prescribe some suggestions to overcome the problems.

## 1.6 Research Methodology

The report was fully exploratory in nature. Data have been collected from secondary sources. **Secondary sources of data**

- Annual report of SIBL (2013-2017)
- Different papers of SIBL
- Unpublished data
- Different text books
- Various files, balance sheet and various documents.

### **Data Processing**

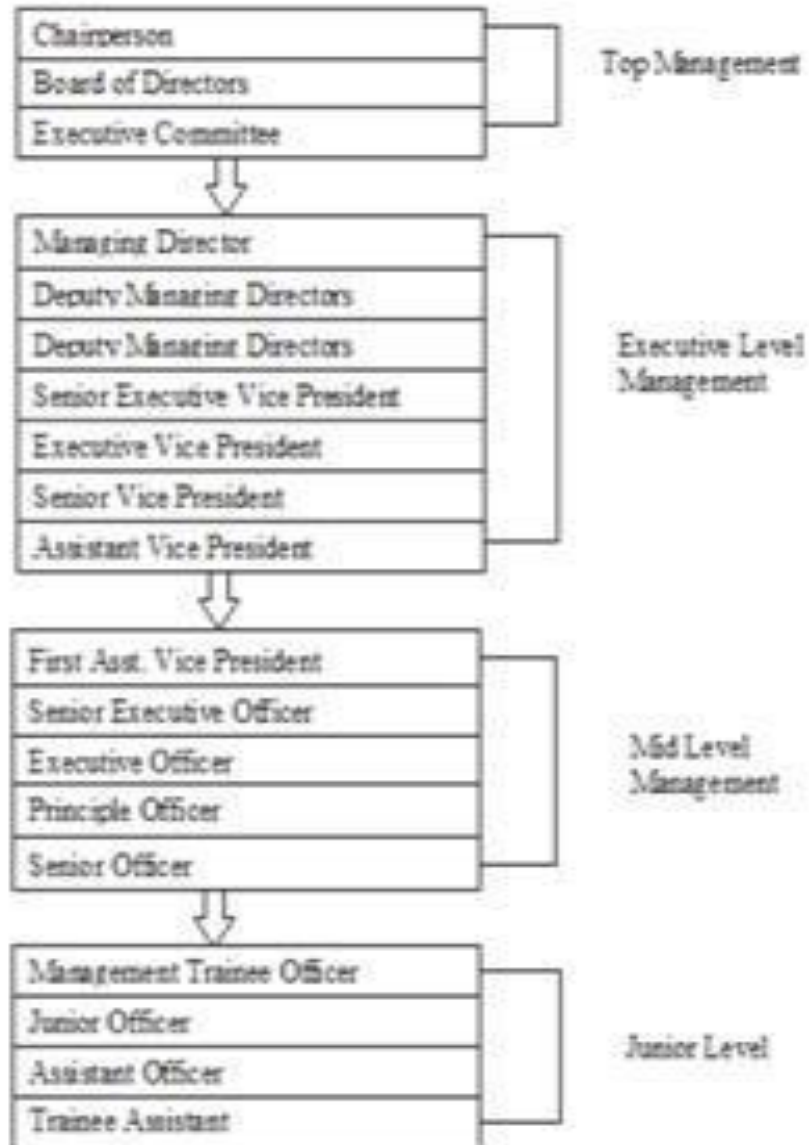
Collected information was processed by the use of computer system; hear by the officer, seeing bank prospectors etc. and this detail analysis work is embodied in the report.

## 1.7 Management Hierarchy of SIBL:

Social Islami Bank Limited is a public limited company. The shareholders are the proprietors of the banks. There are 22 members of the Board of Director who are managing the total management & Human Resources of the bank.

At present, Mr Prof. Md. Anwarul Azim Arif is the chairperson of SIBL & the Vice Chairmen of this bank are Mr. Belal Ahmed & Mr. Md. Sayedur Rahman. The chairperson & Managing Director both are the members of this bank. The chairman of the bank is the head of the Board of Directors. The main function of the Board of Directors is to formulate policy. From the top to the bottom management body of Social Islami Bank Limited can be divided into four levels:

- Top Level Management
- Executive Level Management
- Mid Level Management
- Junior Level Management



## **1.8 Brief Profile of Social Islami Bank Limited:**

**Date of Incorporation:** 22<sup>th</sup> November, 1995

**Number of Branches:** 139

**Number of Employees:** 2400

**Credit Card:** Member of Master Card

**Banking Operation System:** Both Conventional and based on Shariah Islamic Banking System

**Head Office:** City Center, Level 28, 90/1, Motijheel Commercial Area, Dhaka-1000.

**Web Site:** [www.siblb.com](http://www.siblb.com)

**SWIFT:** SOIVBDDH

**CHAPTER TWO**  
**ACTIVITIES**  
**UNDERTAKEN**

## 2.0. Activities Undertaken

### 2.1. Definition of Credit

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 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.

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

### 2.2. Credit management

Banks are major financial institutions, which coordinate between borrowers and lender. They mobilize funds from one group of people at low rate and lend the same to other groups of people at the highest rate of return to maximize profit. Credit management in banking is mainly liable to its concerned authority. At any cost they have to bind to keep its funds in safety and returnable with maximum profit from the investment. So credit management involves an effective Processing of the entire loan transactions, proper evaluation of credit risk, accurate documentation of the loan, security agreements and systematic monitoring of the process of the loan that will help to minimize loan defaults.

### 2.3. Objectives of credit management

- To provide service in special sector
- To ensure profit maximization of the bank
- To provide adequate liquidity and cash
- To manage the loan and investment portfolios in the best possible manner so as to ensure profitability
- To maintain reserve for contingencies
- To minimize loan defaults

## 2.4. Guidelines by Bangladesh Bank

### 2.4.1 Policy Guidelines

This section details fundamental credit risk management policies that are recommended for adoption by all banks in Bangladesh. The guidelines contained herein outline general principles that are designed to govern the implementation of more detailed lending procedures and risk grading systems within individual banks.

#### (I) Lending Guidelines

Every bank should have established Credit Policies (“Lending Guidelines”). The

Lending Guidelines should provide the key foundations for account officers /relationship managers (RM) to formulate their recommendations for approval, and should include the following:

- Industry and Business Segment Focus
- Types of Loan Facilities
- Single Borrower/Group Limits/Syndication
- Lending Caps
- Discouraged Business Types
- Loan Facility Parameters
- Cross Border Risk

### (II) Credit Assessment

Credit Applications should summaries the results of the risk assessment and include, as a minimum, the following details:

- Amount and type of loan(s) proposed.
- Purpose of loans.
- Loan Structure (Tenor, Covenants , Repayment Schedule, Interest)
- Security Arrangements

### (III) Credit Risk Grading

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.

GRADING	SHORT NAME	NUMBER
Superior–Low Risk	SUP	1
Good–Satisfactory Risk	GD	2
Acceptable–Fair Risk	ACCPT	3
Marginal/Watchlist	MG/WL	4
Special Mention	SM	5
Sub standard	SS	6
Doubtful and Bad (non-performing)	DF	7
Bad & Loss (non-performing)	BL	8

**Table-03: Credit Risk Grading**

Source: “MANAGING CORE RISKS IN BANKING: CREDIT RISK MANAGEMENT” by BB



#### (IV) Policy on Loan Classification

Irrespective of credit score obtained by a particular obligor, grading of the classified names should be in line with Bangladesh Bank guidelines on classified accounts, which is extracted from “PRUDENTIAL REGULATIONS FOR BANKS: SELECTED ISSUES” by Bangladesh Bank are presently as follows :

#### Basis for Loan Classification:

##### (a) Objective Criteria:

<i>Types</i>	<i>Objective Criteria</i>	<i>Status</i>
Continuous Loan	Overdue period for	
	Less than 90 days	Standard
	90 days or more but less than 6 months	Special Mention Account
	6 months to less than 9 months	Substandard
	9 months to less than 12 months	Doubtful
	12 months or above	Bad loan
Demand Loan	Overdue period for	
	Less than 90 days	Standard
	90 days or more but less than 6 months	Special Mention Account
	6 months to less than 9 months	Substandard
	9 months to less than 12	Doubtful
	12 months or above	Bad loan
Fixed Term Loan period up to 5 years	If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within	
	Less than 90 days	Standard
	90 days or more but less than 6 months	Special Mention Account
	6 months	Substandard
	12 months	Doubtful
	18month	Bad loan
Fixed Term Loan period more than 5 years	If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within	
	Less than 90 days	Standard
	90 days or more but less than 12 months	Special Mention Account
	12 months	Substandard
	18 months	Doubtful
	24 month above	Bad loan
Short-Term Agricultural Credit And Micro Credit	Overdue period for	
	Less than 90 days	Standard
	90 days or more but less than 12 months	Special Mention Account
	12months to 36 months	Substandard
	36 months to 60 months	Doubtful
	60 months or above	Bad loan

(b) Qualitative Judgment:

If any uncertainty or doubt arises in respect of recovery of any Continuous Loan, Demand Loan or Fixed Term Loan, the same will have to be classified on the basis of qualitative judgment be it classifiable or not on the basis of objective criteria.

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

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

**(v) Policy on Loan Provisioning:**

The provisioning rate as per Bangladesh Bank circulars are as follow:

	Business Unit	Rates of Provision				
		UC	SMA	SS	DF	BL
Consumer Financing	House Building & Professional	2.00%	5.00%	20.00%	50.00%	100.00%
	Other than House Building & Professional	5.00%	5.00%	20.00%	50.00%	100.00%
	Small & Medium Enterprise	1.00%	5.00%	20.00%	50.00%	100.00%
	BHs/MBs/SDs against Shares	2.00%	5.00%	20.00%	50.00%	100.00%
	All Others	1.00%	5.00%	20.00%	50.00%	100.00%

## 2.4.2 Procedural Guidelines

This section outlines of the main procedures that are needed to ensure compliance with the policies contained in Section 1.0 of these guidelines.

**(I) Approval Process**

The preferred approval process -

1. Application forwarded to Zonal Office for approved/decline.
2. Advise the decision as per delegated authority (approved /decline) to recommending branches. A monthly summary of ZCO approvals should be sent to HOC and HO CB to report the previous month's approvals sanctioned at the Zonal Offices. The HOC should review 10% of ZCO approvals to ensure adherence to Lending Guidelines and Bank policies.
3. ZCO supports & forwarded to Head of Corporate Banking (HO CB) or delegate for endorsement, and Head of Credit (HOC) for approval or onward recommendation.
4. HOC advises the decision as per delegated authority to ZCO.
5. HOC & HO CB supports & forwarded to Managing Director.

6. Managing Director advises the decision as per delegated authority to HOC & HOCB.
7. Managing Director presents the proposal to EC/Board.
8. EC/Board advises the decision to HOC & HOCB.

## **(II) Credit Monitoring**

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. At a minimum, systems should be in place to report the following exceptions to relevant executives in CRM and RM team:

- Past due principal or interest payments , past due trade bills, account excesses, and breach of loan covenants ;
- 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 RM team for timely follow-up.
- Timely corrective action is taken to address findings of any internal,external or regulator inspection/audit.
- All borrower relationships /loan facilities are reviewed and approved through the submission of a Credit Application at least annually.
- Computer systems must be able to produce the above information for central/head office as well as local review. Where automated systems are not available,
- a manual process should have the capability to produce accurate exception reports .
- Exceptions should be followed up on and corrective action taken in a timely manner before the account deteriorates further.

## **(III) Credit Recovery**

The Recovery Unit (RU)'s primary functions are:

- Determine Account Action Plan/Recovery Strategy
- Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate.
- Ensure adequate and timely loan loss provisions are made based on actual and expected losses.
- Regular review of grade 6 or worse accounts.

### 2.4.3 Credit Management Process of SIBL

The loan and credit department is a very important department of a bank. The money mobilized from ultimate surplus units are allocated through this department to the ultimate deficit unit (borrower).the success of this department keeps a great influence over the profit of a bank. Failure of this department may lead the bank to huge losses or even to bankruptcy. The Bank implemented the system of credit risk assessment and lending procedures by stricter separation of responsibilities between risk assessment, lending decisions and monitoring functions to improve the quality and soundness of loan portfolio.

#### 2.4.3.1 Credit Program

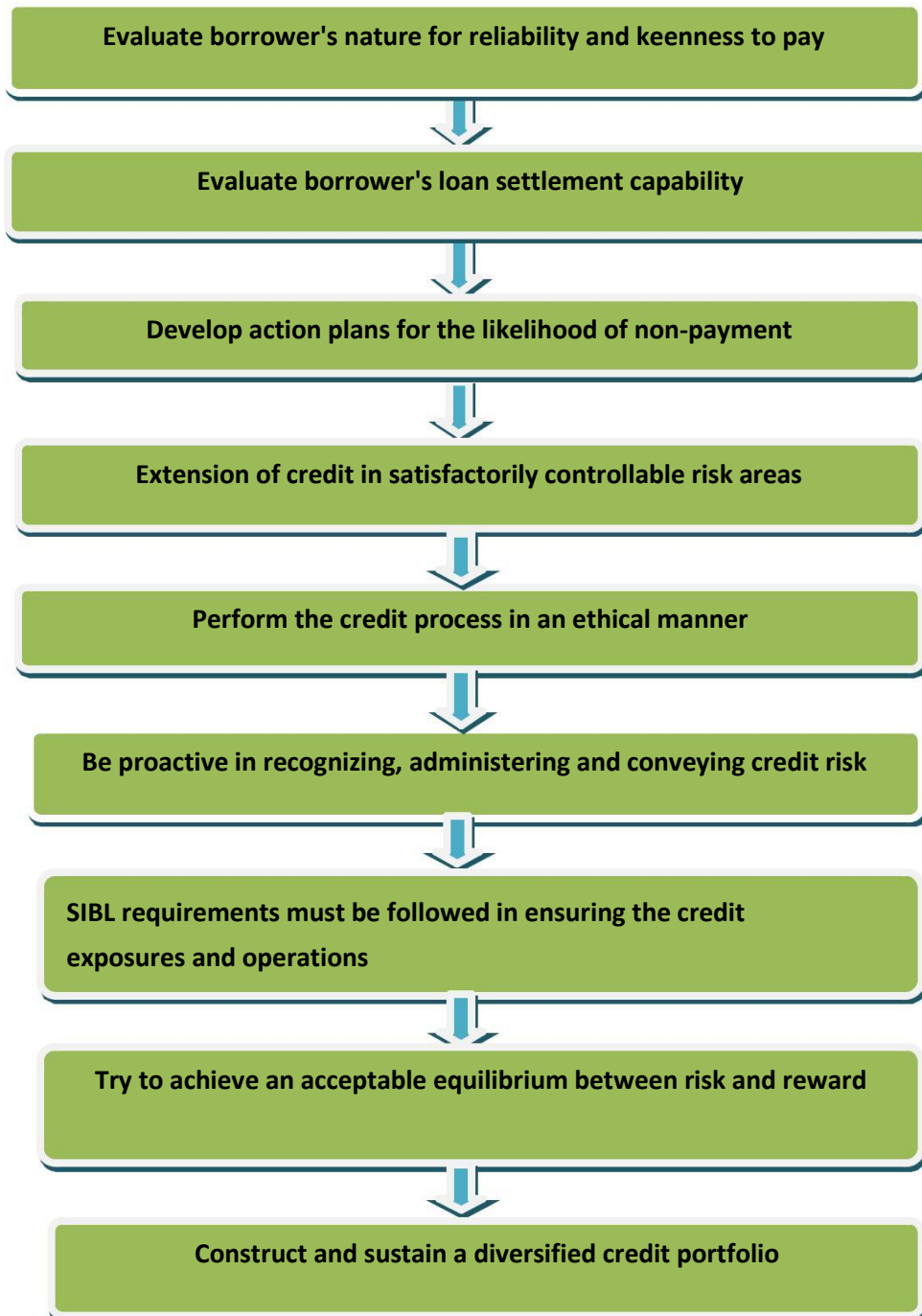
- The main focus of SIBL Limited Credit Line/Program is financing business, trade and industrial activities through an effective delivery system.
- SIBL Limited offers credit to almost all sectors of commercial activities having productive purpose.
- The loan portfolio of the Bank encompasses a wide range of credit programs
- Credit is also offered to 15 (fifteen) thrust sectors , as earmarked by the Government, at a reduced interest rate to develop frontier industries.
- Credit facilities are offered to individuals, businessmen, small and big business houses, traders, manufactures, corporate bodies, etc.
- Loan pricing system is customer friendly.
- Prime customers enjoy prime rate in lending and other services.
- Quick appreciation, appraisal, decision and disbursement are ensured.
- Credit facilities are extended as per guide-lines of Bangladesh Bank (Central Bank of Bangladesh) and operational procedures of the Bank.

#### 2.4.3.2 Credit Policy of SIBL:

Credit policy by which the bank is guided to lend is as follows:

- Assessment of the customer's character, integrity and willingness to repay will form basis of lending.
- Customers having capacity and ability to repay shall only be sent.
- Possibility of default will be worked out before lending.
- Diversified credit portfolio to be built and maintained.
- Be proactive in identifying, managing and communicating credit risk.
- Credit will normally be financed from customers' deposits and not out of short term temporary funds or borrowing from other banks.
- Ethical behavior in all credit activities shall be ensured.

### 2.4.3.3 Credit Principles in SIBL



*Figure: Credit Evaluation Principles of SIBL .*

### **Evaluate borrower's nature for reliability and keenness to pay**

A borrower's capacity and commitment to repay a loan are two important factors to a bank. In this respect, the bank has to examine the customer's records and background in his former credit / loan related dealings. The bank should not engage itself into any commitment where there is potential threat and in these cases the bank should be prepared for some exit plans.

### **Evaluate borrower's loan settlement capability**

The loan servicing capacity of the borrower is an essential factor that has to be assessed by the bank prior to the extension of any credit facilities. For this purpose, financial techniques and procedures can be used by the bank. The bank should examine the customer's reason for borrowing, major modes of repayment, historical and projected financial information, industry and competitive position, managerial skills, information source and systems, borrower's operational efficiency, cyclical fluctuations in operations, supply and distribution position.

### **Develop action plans for the likelihood of non-payment**

Any kind of loan carries the possibility of default and thus it is very important for the bank to assess the secondary and tertiary modes of repayment along with the primary source. For this purpose, the bank should consider the security value, value impairment conditions, should define and document the terms and conditions of loan and ensure effective assessment.

### **Extension of credit in satisfactorily controllable risk areas**

To avoid any potential adverse situation, the bank should engage itself only in those areas where it can effectively manage and handle the transaction risk as well as the entity or business risk. In this regard, the bank has the responsibility toward developing and maintaining a productive and efficient relationship with the borrower.

### **Perform the credit process in an ethical manner**

Any kind of unethical and illegal behavior, speculation, conflict of interests is prohibited in SIBL. Customer related information should be kept confidential.

### **Be proactive in recognizing, administering and conveying credit risk**

The bank has to be proactive in identifying the state of the borrower's after disbursement performance. Regular monitoring of the accounts, prompt reporting of material deterioration, utilizing Early Warning System (EWS), adjusting of lending terms and conditions are also important factors to be confirmed.

### **SIBL requirements must be followed in ensuring the credit exposures and operations**

Bank's guidelines, requirements and internal directives must be complied with. The Relationship Manager must exercise his or her judgment in unforeseen circumstances.



### Try to achieve an acceptable equilibrium between risk and reward

The bank should be compensated for the risk it takes. Therefore, an appropriate as well as competitive pricing strategy has to be followed. Credit exposure, loan period, security, credit structure etc. should be arranged in accordance with the bank's policies and guidelines keeping the risk return priorities in view.

### Construct and sustain a diversified credit portfolio

Undiversified investment can expose the bank to industry specific risk. Therefore, SIBL has to adhere to its policy about pectoral allocation of portfolio, maintain approved ceiling for single borrower, and accurately identify risk characteristics of each exposure

### 2.4.4 Credit risk grading of SIBL

According to Bangladesh Bank guidelines, all Banks should adopt a credit risk grading system. Therefore, SIBL has duly implemented a credit risk grading policy in its credit risk assessment program. Risk grading is a key measurement of a Bank's asset quality. All facilities are assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities are immediately changed. Credit Memorandum includes a clear statement of the borrower's risk grade.

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

1.	Superior	Fully cash secured,secured by government
2.	Good	85+
3.	Acceptable	75-84
4.	Marginal/watch list	65-74
5.	Special mention	55-64
6.	Substandard	45-54
7.	Doubtful	35-44
8.	Bad	<35

They grade credit application through these eight criteria. Credit seeker gets credit if they belong first three criteria. Who belongs next three Criteria who may qualify for getting credit if they

fulfill the condition as per the banks condition But who belongs in last two criteria who directly disqualified for the credit.

### **2.4.5 Credit Risk Assessment**

Before extension of loans, a comprehensive credit risk appraisal is done and annual reviews are made. A credit memorandum (CM) is prepared by the Relationship Manager (RM) which includes the findings of such assessment. The RM used to be the owner of the customer relationship and he / she is held responsible for complying with all the policies and guidelines of Bangladesh bank, bank laws, SIBL policies and guidelines etc.

The credit assessment procedure can be segregated into two segments:

- ✚ Call report
- ✚ Credit Memorandum

#### **Call report**

At the time inception of a relationship, the relationship manager tries to gather more and more information about the client. He / she sometimes visit the business premises to get an idea about the financial and operational condition of the prospective client. The market reputation, competitive position etc. are also duly assessed. Branch manager along with the relationship manager is also connected in this process. These initial visits or enquiries are referred to as 'calls'. Based on the findings of such calls, RM and the branch manager send a call report to the Head of Marketing, Head of Credit and Managing Director for initial review. The call report contains some SIBL information about the client such as:

- a. Client's background
- b. Business
- c. Market share
- d. Reliability
- e. Credit exposure
- f. Existing banking relationships
- g. Credit requirements
- h. Pricing of the proposed credit facility

#### **Credit Memorandum (CM)**

If the Head Office conveys positive sign for a call report, then only the branch RM goes for preparing a CM. The preparation of CM includes the in-depth analysis of credit risk factors, critical assessment of the client in the light of credit policy guidelines of the bank. Then it is sent to the Head of Marketing to enclose the necessary recommendations and to commence the credit



approval process. The CM has to be accompanied with all the required legal documents and the financial information of the prospective client.

The CM generally contains the followings:

- a) A specific control number and base number for each client.
- b) The credit risk grading score.
- c) The authorization for the approval process.
- d) The description of the proposed facility.
- e) Rationale behind the loan extension.
- f) Financial information of the client mainly the income statements for the past years, earnings forecasts in normal and adverse conditions.
- g) Forecasted earnings from the relationship to be established.
- h) Lending agreement.
- i) Compliance of the policies and guidelines of Bangladesh Bank and SIBL.

The CM also contains the assessment of the following areas:

#### **Borrower analysis**

The majority shareholders, management team and group or affiliate companies are assessed. Any issues regarding lack of management depth, complicated ownership structures or intergroup transactions are addressed, and risks mitigated.

#### **Industry Analysis**

The key risk factors of the borrower's industry are assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces are addressed and the strengths and weaknesses of the borrower relative to its competition are identified.

#### **Supplier/Buyer Analysis**

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

#### **Historical Financial Analysis**

An analysis of a minimum of 3 years historical financial statements of the borrower is presented. Where reliance is placed on a corporate guarantor, guarantor financial statements are also analyzed. The analysis addresses the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability are analyzed.

#### **Projected Financial Performance**

Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance is provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans are not granted if projected cash flow is insufficient to repay debts.

#### **Account Conduct**

For existing borrowers, the historic performances in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc) are assessed.

#### **Adherence to Lending Guidelines**

Credit Applications should clearly state whether or not the proposed application is in compliance with the bank's Lending Guidelines. The Bank's Head of Credit or Managing Director/CEO approve Credit Memorandum that does not adhere to the bank's Lending Guidelines.

#### **Mitigating Factors**

Mitigating factors for risks identified in the credit assessment are identified. Possible risks include, but are not limited to: margin sustainability and/or volatility, high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; new business line/product expansion; management changes or succession issues; customer or supplier concentrations; and lack of transparency or industry issues.

#### **Loan Structure**

The amounts and tenors of financing proposed are justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.

#### **Security**

A current valuation of collateral is obtained and the quality and priority of security being proposed are assessed. Loans are not granted based solely on security. Adequacy and the extent of the insurance coverage are also assessed.

## **2.4.6 Loan Process of SIBL**

### **Application for the loan:**

The loan process starts with the submission of loan application by the borrower. The borrower submits the loan application to the branch manager. In the loan application the borrower provides following information:

- Personal detail of the applicant
- Nature of business
- Amount and duration of the loan
- Purpose of the loan
- Details of the collateral

### 2.4.7 Filling Form-A:

After satisfying with party's application the applicant need to fill Form-A its prescribed application form of bank provides by the respective branch that contains information of the borrower.

- Names of the borrower
- Factory location
- Official address, Present & Permanent address
- Past and Present business

### 2.4.8 Scrutinizing And Collection of Information

In case of clients who have previous record of taking credit facilities, then the existing records are examined to see whether the client has a good record of payments in time. Otherwise, information is to be collected through direct inquiry.

#### I Direct Inquiry

Direct inquiry one of the common methods of obtaining information to verify facts presented on the application during the interview of an applicant for an initial credit transaction. To collect direct information credit officers visit the clients to see the viability of the information provided by the client. Information regarding the existing and the prospective client are also obtained from the CIB of Bangladesh Bank to see the existing borrowing records of the client. After receiving the application for advance, National Bank sends a letter to Bangladesh Bank for obtaining a report from there. This report called CIB (Credit Information Bureau) report. SIBL Ltd. seeks this report from head office for all kinds of credit.

In the CIB report Bangladesh Bank uses any of the following reference no:

- **NIL:** If the client has no loan facility in any bank or any financial institution then Bangladesh Bank uses 'NIL' in the report.
- **Unclassified (UC):** If the client has any loan facility in any bank or financial institution and if the installment due 0 to 5.99 months then Bangladesh Bank use UC in the report.
- **Substandard (SS):** If the client has any loan facility in any bank or financial institution and if the installment due 6 to 11.99 months then Bangladesh Bank use SS in the report.

- **Doubtful (DF):** If the client has any loan facility in any bank or financial institution and if the installment due 12 to 17.99 months then Bangladesh Bank use SS in the report.
- **Bad lose (BL):** If the client has any loan facility in any bank or financial institution and if the installment due 18 or above months then Bangladesh Bank use BL in the report.  
This report indicates that the client is defaulter and the bank should not provide loan the client.

## II In-file Ledger Fact

In-file ledger facts are one of the most important sources of information available to credit committee whether to accept or reject a larger amount of credit from an established credit customer. From the in-file records, credit analysts have at their disposal the experience of the concern with the customer. They know the customer's payment habits, the complaints registered, the collection efforts, if needed to keep the customer in line with the established terms.

### 2.4.8 Preparation of loan proposal:

Based on financial and management analysis and need of the client and his capability of operating the business, RM shall design the credit keeping in mind on the following issues:

- Purpose of the credit.
- Experience in the similar business
- Risk, Remuneration
- Ancillary business
- Validity Loan Period & Business Profitability
- Debt Equity Ratio
- Repayment capacity & Production capacity
- Market demand of the product

### 2.4.9 Documents:

Before sending proposal to the approving authority, the branch ensures that the following document has been completed properly:

- Current CIB report
- Loan application from duly signed by the customer.
- Acceptance of terms and condition
- Copy of last audited financial statement up to 3 years.
- Bank statement-last 6 months
- Net worth of the business

- Net worth of the individual
- Total debit and credit of the business
- Visiting card/company ID
- Trade license for business
- Utility Bill(Electricity/WASA/Gas)
- Income tax return of the borrower
- Partnership Deed
- Company memorandum
- Passport/National ID/Driving License
- Copy of the Board resolution of the company.
- Certificate of professional degree
- Photograph-2 copies
- Guarantors (two persons)

## 2.4.10 Assessment of the loan proposal

### **Borrower Analysis**

The management team, majority shareholders should be assessed. Any issues regarding complicated ownership structure, lack of management depth should be assessed and risk is mitigated.

### **Industry Analysis**

The key risk factors of the borrower's industry should be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weaknesses of the borrower relative to its competition should be identified.

### **Supplier/Buyer Analysis**

Any customer or supplier concentration should be addressed. Because it could significant impact on the future viability of the borrower.

### **Historical Financial Analysis:**

Preferably an analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analyzed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability must be analyzed.

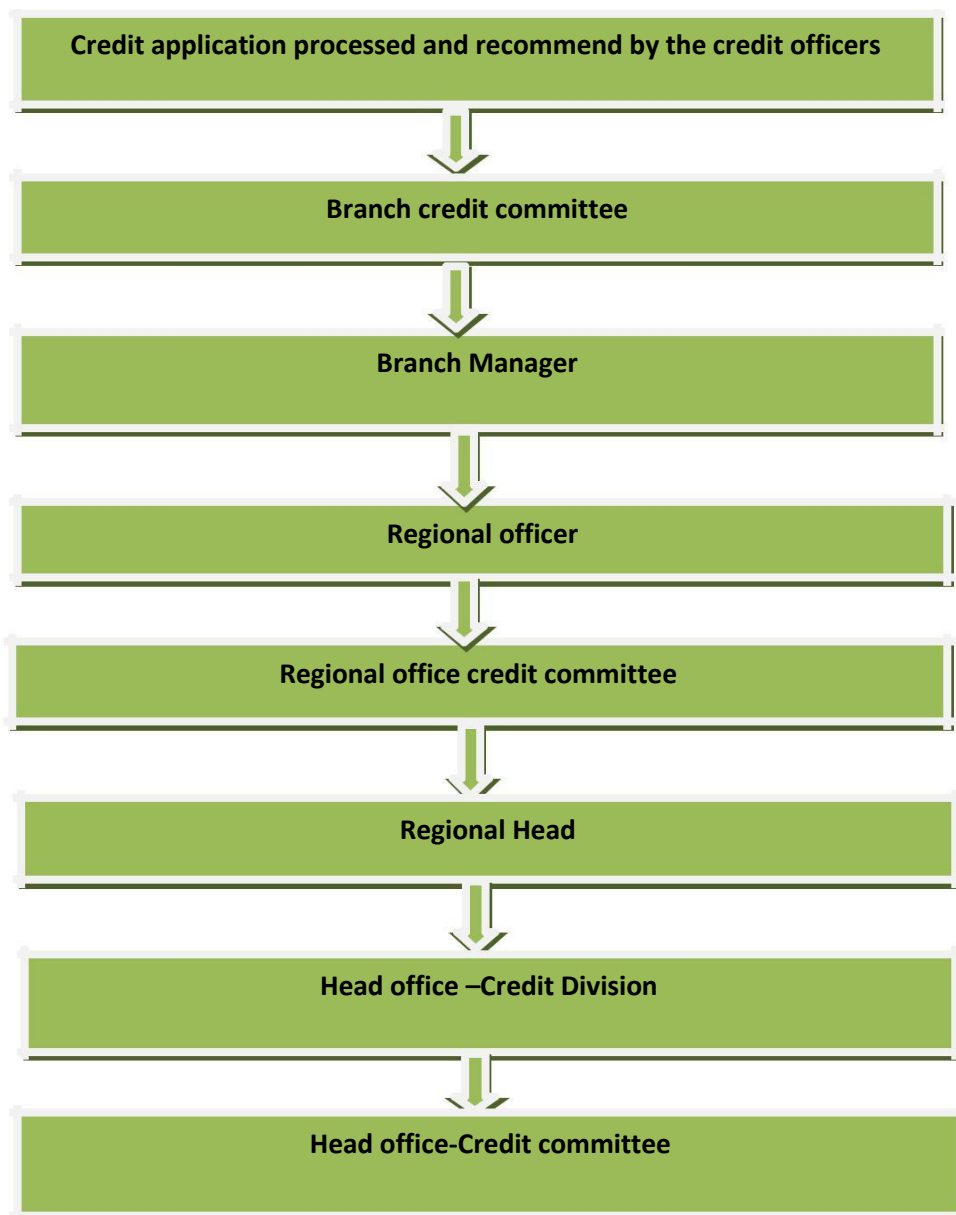
## Credit Background

Credit application should clearly state the status of the borrower in the CIB (Credit Information Bureau) report. The application should also contain liability status with other Banks and FI's and also should obtain their opinion of past credit behavior.

## Account Conduct

For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments etc) should be assessed.

### 2.4.11 Credit Approval Process of SIBL



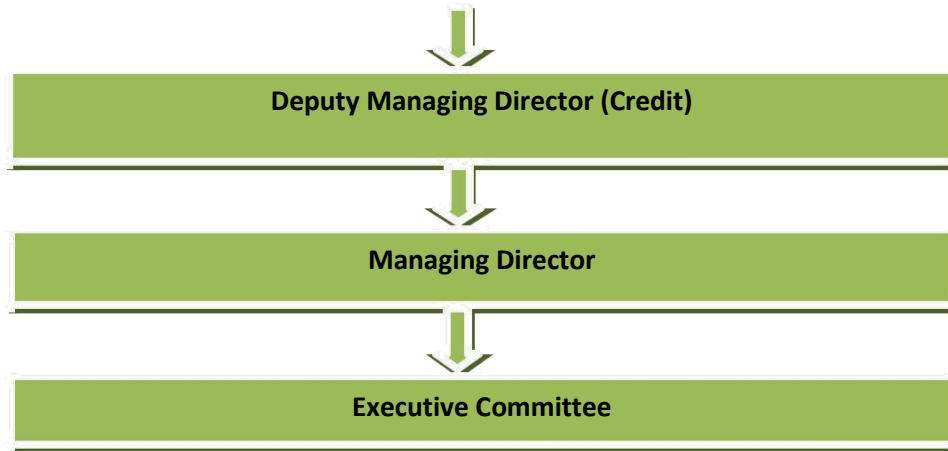


Fig: Credit Approval Process of SIBL .

### 2.4.12 Sanction Letter

Client's information and loan details are matched with the credit approval then loan is sanctioned and a loan sanction number is auto generated.

- Name of the borrower
- Facility allowed
- Purpose
- Rate of interest
- Security and other terms and conditions

### 2.4.13 Securities

National Bank maintains the security listed below in recovering the loans without risk.

- **Lien:** It's a right to retain the property / goods of the borrower as security until the debit are adjusted. In this case the banker can only hold the possession of the goods he cannot sell them. He can sell the securities under lien after giving reasonable notice to the borrower.
- **Pledge:** Pledge is created only for movable property like goods document etc. The pledged goods are returned to the owner after the loan is adjusted. If the borrower fails to repay the loan the banker can sell the pledged goods after giving reasonable notice to him.
- **Mortgage:** Only the immovable properties are kept under mortgage. It is a method of creating charge on immovable properties.

- **Hypothecation:** Hypothecation is nothing but the mortgage of movable property. It is an extended idea of pledge. In this case both possession and ownership remains with the borrower but by the hypothecation agreement he undertaken to transfer possession whenever required.

#### 2.4.14 Verification of Security

- Credit Administration Division must check all collateral, primary securities and, legal opinion may be obtained to protect bank's interest.
- Ensure Mortgage documents are properly vetted by legal counsel /panel lawyer as per existing norms of the bank.

#### 2.4.15 Mandatory Checking:

- ❖ Proposal Credit facilities are compliant of the existing banking regulations.
- ❖ CRG has been done.
- ❖ Other analysis and assessment has been done properly.
- ❖ Computer authority as per Bank's policy approves facilities in writing.
- ❖ All credit approvals are given on a one-obligor basis.
- ❖ Limit is approved as per delegated authority.
- ❖ Large loans are approved within the ceiling advised by Bangladesh Bank.
- ❖ Fresh approvals, renewal, rescheduling, compromise agreement for the Board as per Bangladesh Bank Guidelines places large loan accounts for approval.

#### 2.4.16 Documentation:

In the borrower accept the sanction letter, the documentation starts. Documentation is a written statement of act evidences certain transitions covering the legal aspects duly signed by the authorized persons having the legal status. In spite of the fact that banker lends credit to a borrower after inquiring about the character, capacity and capital of the borrower, he must obtain proper documents executed from the borrower to protect him against willful defaults. Moreover, when money is lent and binding charge against those assets. Documents contain the precise terms of granting loans and they serve as important evidence in the law courts if the circumstances so desire:

1. Letter of arrangement
2. Letter of Disbursement, stock report
3. Letter of installment ,Letter of guarantee
4. Letter of continuity ,Trust Receipt
5. Demand promissory note & status report



### 2.4.17 Loan Disbursement

After verifying all the documents the branch disburses the loan to the borrower. A loan repayment schedule is also prepared by the bank and given to the borrower so that borrow can withdraw the money through his bank account. Bank will give cheque book to the party and advise them to draw the money.

### 2.4.18 Credit Monitoring

Credit monitoring process at SIBL tries to monitor the following:

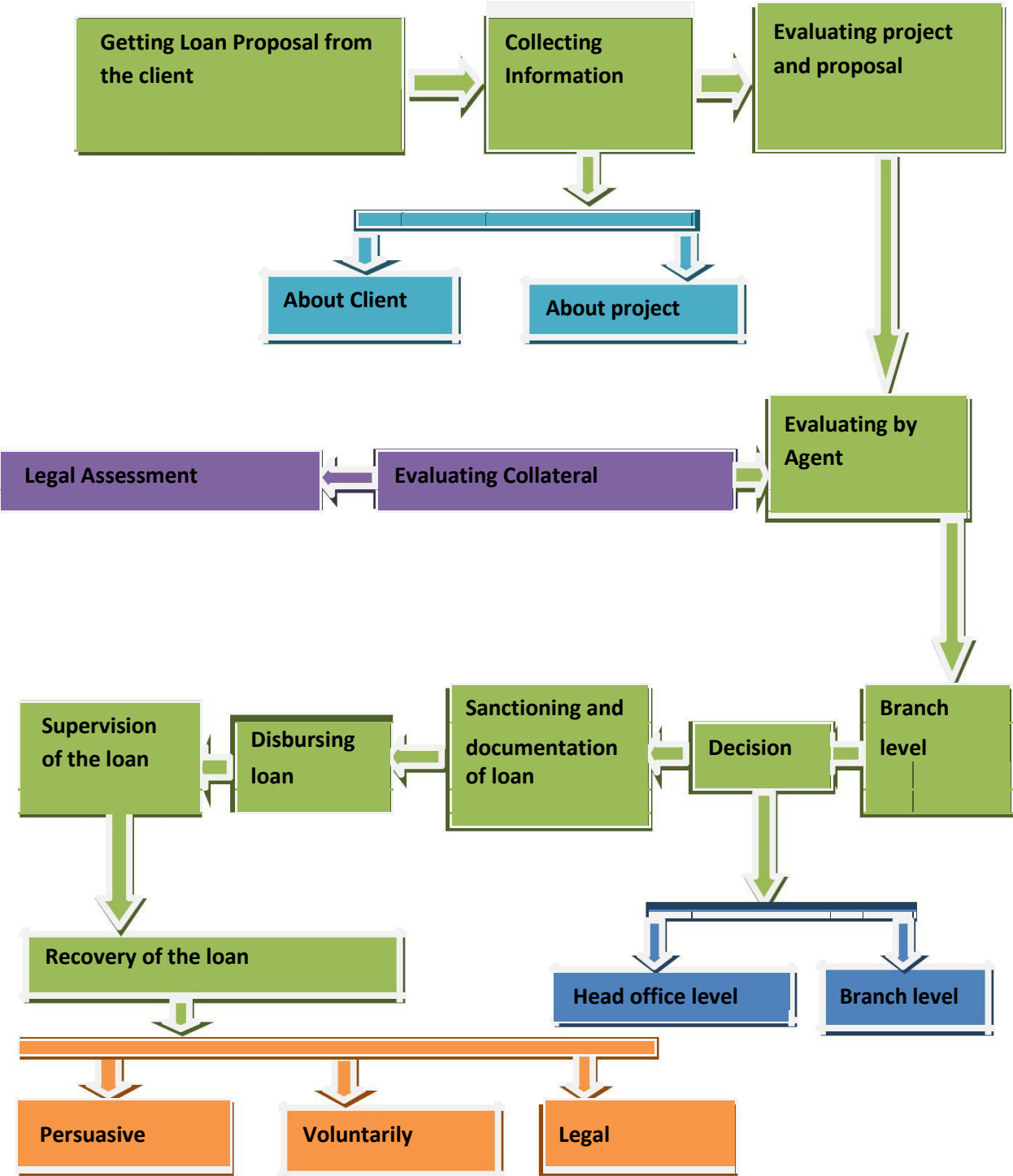
- Past due principal or interest payments, past due trade bills, account excesses, and breach of loan covenants
- Loan terms and conditions are monitored, financial statements are received on a regular basis, and any covenant breaches or exceptions are referred to CRM and the RM team for timely follow-up.
- Timely corrective action is taken to address findings of any internal, external or regulator inspection/audit.
- All borrower relationships/loan facilities are reviewed and approved through the submission of a Credit Application at least annually.
- *Ensuring renewal of limits two months ahead of expiry dates.*
- *Entering all credit facility amount into MIS database.*

### 2.4.19 Credit Recovery

SIBL Ltd. used the following recovery steps:

- 1. Persuasive Recovery:** The first step in recovery procedure is private communication that creates a mental pressure on borrower to repay the loan. In this situation bank can provided some advice to the borrower for repaying the loan.
- 2. Voluntarily Recovery:** In this method, some steps are followed for recovering loan. These are:
  - Building Task Force
  - Arranging Seminar
  - Loan rescheduling policy
  - Waiver of interest rate
- 3. Legal Recovery:** When all steps fail to keep an account regular and borrower does not pay the installments and interests then the bank take necessary legal steps against the borrower for realization of its dues. In this case Artha Rin Adalat Law 2003 plays an important role for collecting the loan.

2.4.20 Diagrammatically Loan Procedure of SIBL:



**Figure: Loan Procedure of SIBL**

### 2.4.21 Total Loans & Advances :( Taka in millions)

Year	2013	2014	2015	2016	2017
Loans and advances	36475.74	50665.07	65129.29	92003.56	115388.89
Growth rate		38.90%	28.55%	41.26%	25.41%

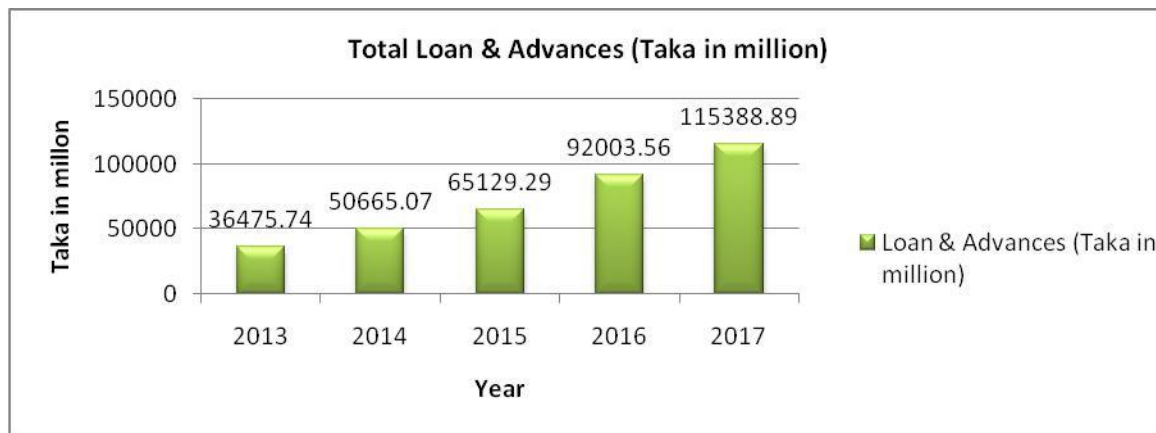


Fig: Year wise total loans & advances of SIBL (Source: Annual Report 2013-2017)

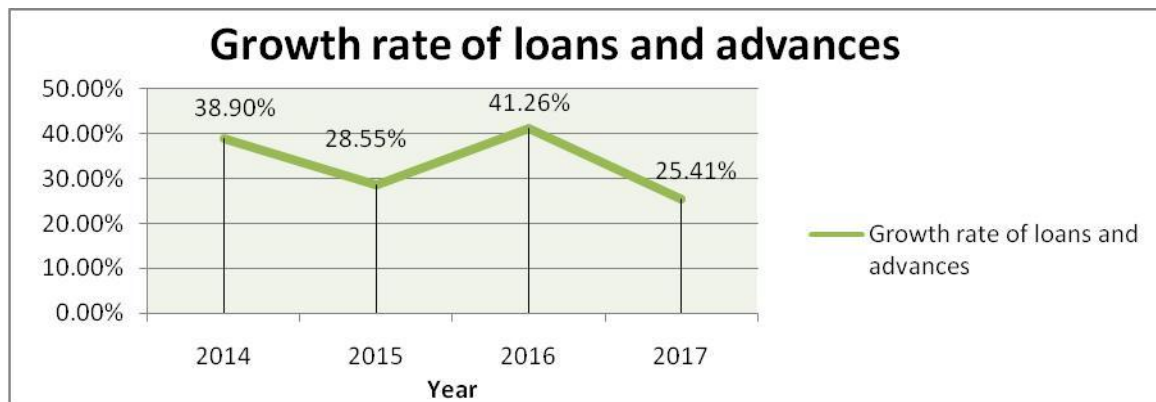


Fig: Year wise growth rate of loans & advances of SIBL

(Source: Annual Report 2014-2017)

**Interpretation:** The graph represents that, the total loan & advances of growth rate performance is fluctuating gradually year by year. In 2013 the loan and advances was 36475.74 then it was increased year by year. In 2017 it was highest as 115388.89. Although the amount of loans and advances increased year by year but at a fluctuating growth rate. In 2014 it was 38.90% but in 2017 it stood at 25.41%

**2.4.22 Sector wise Loans Disbursement:** (Taka in millions)

Sector	Taka	Percentage
Agriculture	1102.25	.95%
Term loan to small cottage industries	552.65	.48%
Term loan to medium industries	16205.62	14.04%
Working capital to industry	14260.07	12.36%
Export credit	6925.48	6.01%
Trade finance	35644.15	30.89%
Consumer credit	5.11	.01%
Credit card	601.30	.52%
Others	40092.26	34.74%
Total	115388.89	100%

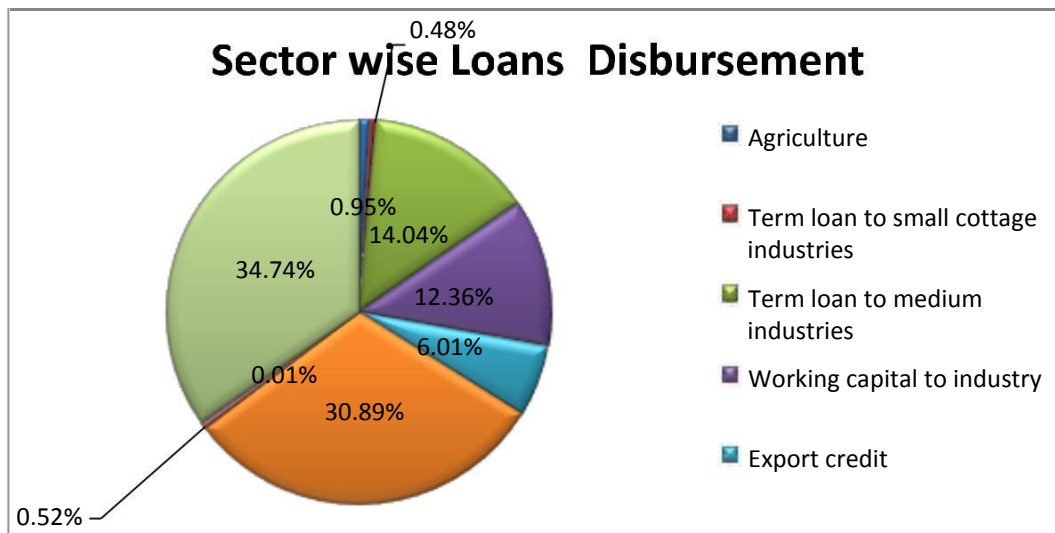


Fig: Sector wise Loans Disbursement of SIBL (Source: Annual report 2014-2017)

**Interpretation:** A wide range of business industries and sectors constitutes the bank’s portfolio. Major sector where the bank extended includes trade finance, term loan to medium industries, working capital to industry etc. The high sectors were trade finance 30.89%, term loan to medium industries 14.04%, working capital to industries 12.36% in 2012.

**2.4.23 Geographical location-wise Loans and advances :**(Tk. in millions)

Division	Tk.	Percentage
Dhaka	67748.94	58.71%
Chittagong	32538.07	28.20%
Khulna	4996.32	4.33%
Sylhet	1438.99	1.25%
Rajshahi	8666.57	7.51%
Total	115388.89	100%

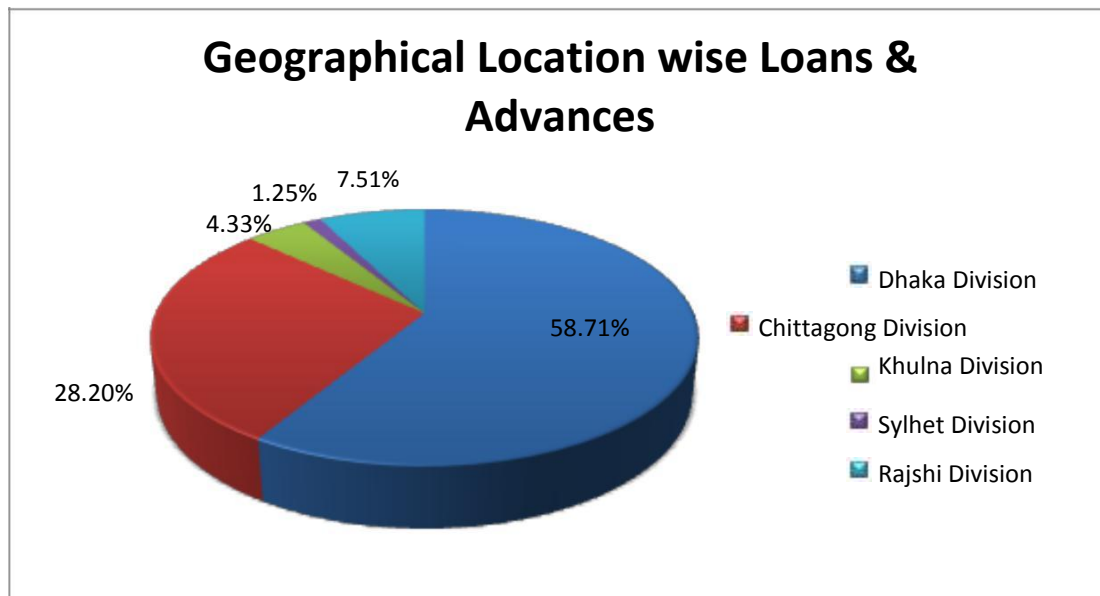


Fig: Geographical Location Wise Credit Distribution:

(Source: Annual report 2014-2017)

**Interpretation:** From the above figure it has seen that SIBL distributes a large portion of credit in Dhaka division. In Dhaka division the bank distributes near about 58.71% where Chittagong divisions are 28.20 % and Rajshahi division is 7.52%. It has been viewed that only 4.33% of their geographical credit distribution goes to Khulna division and 1.25% in Sylhet division.

#### 2.4.24 Recovery percentage of loans and advances:

Year	Percentage
2013	95.45%
2014	94.61%
2015	94.04%
2016	96.04%
2017	97.17%

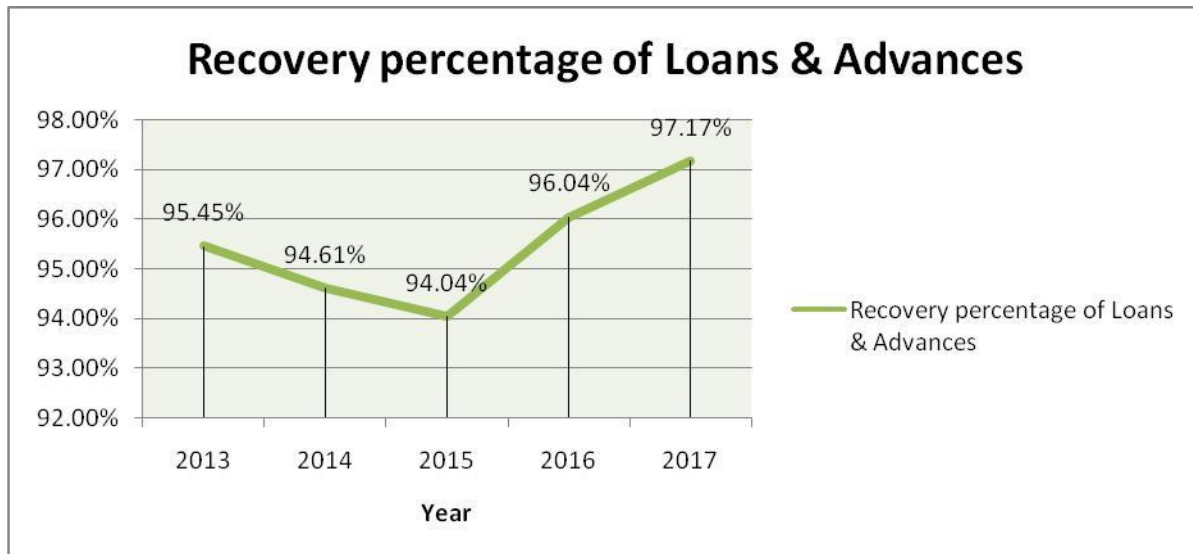


Fig: Year wise Recovery percentage of SIBL (Source: Annual report 2013-2017)

**Interpretation:** From the figure it has seen, the recovery percentage of SIBL always stood around 95%. In 2013 the bank has recovery loan which was 95.45%. Then next two years recovery percentage slightly decreased and next two years again increased and in 2017 the rate was 97.17%.

# CHAPTER THREE

## Findings

### &

## Recommendation.

### **3.1 Findings:**

1. Due to increased cost of fund, the bank has to charge high interest rate on loan.
2. Due to this high interest rate, the bank can't attract more customers for investment.
3. Collateral holds by the banks are largely useless.
4. The loan officers of banks hardly remain in touch with the borrower after the loan is approved and disbursed.
5. To find the interest suspense account through their computer but manually they check those out.



### **3.3 Recommendation:**

As I have gone through some departments, I have come up with some points, which can improve the efficiency as well as quality of the work.

1. To solve interest rate policy and fixed to a normal interest rate which is not high for customers.
2. The credit officer of bank should remain in touch with the borrower after the loan has approved and disbursed.
3. According to the bank company ACT 1991, bank should keep proper loan provision for the classified loan.
4. The responsibility of the employs checked out the statement.

# CHAPTER FOUR

# CONCLUSION

#### **4.0 Conclusions:**

This report is an effort to reflect a clear idea about the Credit approval process & managing credit risk of Social Islami Bank Ltd. I was assigned in the Agargaon Branch of Social Islami Bank Limited (SIBL) as an intern. I present this report on the basis of the knowledge and experience gained during the internship period of three months. In this period of time I have tried to gain knowledge about the credit related areas and also general banking activities.

This report contains the whole function of retail banking, risks associated with credit risk, grading model about corporate credit, managing retail credit risks etc. In any Bank there are three sectors these are general banking, credit section and foreign exchange. Of them the most important sector is credit and the main task is credit operation and credit management. The global success or failure of the Bank as a whole depends on it. With other things aside the main important part of credit operation is borrower selection. There are five important factors to select the borrower. These are known as five Cs. These are Capital, Character, Collateral, Capacity, and condition of the borrower. The financial viability of the customer has got significant importance. That's why different techniques are used to justify the borrower's financial position.

General banking consists of account opening, customer services and deposits collection. General Banking also has great impact because banking functions starts with general banking.

Social Islami Bank Limited started with a vision to be the most efficient financial intermediary in the country and it believes that the day is not far off when it will reach its desired goal. Social Islami Bank Limited looks forward to a new horizon with a distinctive mission to become a highly competitive modern and transparent institution comparable to any of its kind at home and abroad and I feel very much lucky to do my Internship in such an organization like Social Islami Bank Limited.

## APPENDIX AND REFERENCE

### Appendix-1

#### Abbreviations

#### APPENDIX

A/C	Account
ATM	Automatic Teller Machine
ALCO	Asset Liability Committee
B/L	Bill of Lading
BB	Bangladesh Bank
BIC	Bank Identifier Code
BR	Branch
C&F	Clearing And Forwarding
CC	Cash Credit
CCI & E	Chief Controller of Import & Exporter
CFR	Cost And Freight
CRF	Clean Report Findings
CIB	Credit information Bureau
DD	Demand Draft
DBDS	Double Benefit Deposit Scheme
EDF	Export Development Fund
EPB	Export promotion Bureau
EPZ	Export processing Zone
ERC	Export Registration Certificate

EXP	Export Form
FC	Foreign Currency
FDD	Foreign Demand Draft
FDR	Fixed Deposit Receipt
FOB	Free On Board
IBCA	Inter Branch Credit Advice
IBDA	Inter Branch Debit Advice
IMP	Import Form
IRC	Import Registration Certificate
IBC	Inward Bills For Collection
KYC	Know Your Customers
L/C	Letter Of Credit
LCAF	Letter Of Credit Authorization Form
LIM	Loan Against Imported Merchandise
LTR	Loan Against Trust Receipt
LSC	Local Short Collection
MT	Mail Transfer
MDS	Monthly Deposit Scheme
OD	Over Draft
OBC	Outward Bills For Collection
PAD	Payment Against Document
PO	Pay Order
PSI	Pre Shipment Inspection
PL	Personal Loan

SOD	Secured Overdraft
STD	Short Term Deposit
SWIFT	Society For Worldwide Inter Bank Financial Telecommunication
SND	Special Notice Deposit
SDR	Special Drawing Right
SBL	Small Business Loan
SC	Short Collection
TC	Travelers Cheque
TIN	Tax Identification Number
TR	Truck Receipt

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