



Inspiring Excellence

**Internship Report**

**On**

**“A Study on Loan Portfolio Management of commercial bank of Ceylon,  
PLC: An Evaluation”**

**Prepared for**

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**Date of submission: 3rd April, 2018**

## Letter of Transmittal

April 3, 2018  
Dr. Salehuddin Ahmed

Professor  
BRAC Business School  
BRAC University

**Subject: Submission of internship report on “A Study on Loan Portfolio Management of Commercial Bank of Ceylon, PLC: An Evaluation”**

Dear Sir,

With great pleasure and due reverence, sir I would like to inform you that as per your valuable guidelines, I have prepared this report through analyzing ins and outs of loan portfolio management of this bank. Now I am submitting my internship report on “**A Study on Loan Portfolio of Commercial Bank of Ceylon, PLC: An Evaluation**” which was assigned as an essential requirement of MBA program. With my utmost effort, I tried my level best to gather relevant information for preparing a complete report.

Without sincere co-operation and proper guidance of yours, it would not be possible for me to prepare this report. For this kindness, I am grateful to you. This report is not fully free from errors and mistakes due to some time and information constraints. I hope you will accept it with gracious consideration.

I am glad to your initiatives for the internship project in business related issues. I highly appreciate if you please remind me to future clarification for any confusion.

Sincerely yours,

.....

**Md. Jannat Fakir**

ID: 15264005

BRAC Business School  
BRAC University

## **Certificate of Supervisor**

This is to certify that **Md. Jannat Fakir**, a student of MBA Program bearing ID No.15264005, BRAC Business School, BRAC university successfully completed his internship report entitled “**A Study on Loan Portfolio management of Commercial Bank of Ceylon, PLC: An Evaluation**” under my supervision as the partial fulfillment for the completion of MBA program.

He has completed his report as per my supervision and active guidance. I think this paper will help him instill business related knowledge in the future to build up his career. I wish his success and prosperity.

.....

Dr. Salehuddin Ahmed  
Professor  
BRAC Business School  
BRAC University

## Declaration

I am, Md. Jannat Fakir, student of MBA program of BRAC Business School, BRAC university hereby declare that the internship report on “**A Study on Loan Portfolio Management of Commercial Bank of Ceylon, PLC: An Evaluation**” is an original and benefited work done by me for partial fulfillment of the Masters of Business Administration program, as a part of academic Requirement. It has not been submitted or published by me before for any other purpose.

.....

Md. Jannat Fakir

ID: 15264005

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## **Acknowledgement**

At the very beginning, I would like to show my due reverence, indebtedness and deep sense of gratitude to my honorable supervisor Dr. Salehuddin Ahmed, Professor, BRAC business School, BRAC University, whose holistic and scholastic supervision, kind and sympathetic guidance, valuable advices and inspiration have completely assisted me to materialize this paper successfully.

I also would like to express my sincere gratitude to all other faculty members and bank staffs for their cordial attitude and extend helping hand to me in collection of rational data and sharing their practical working knowledge that helped me a lot to finish this report. I am also indebted to the customers of different branches of different commercial banks, who helped me to collect data for giving their valuable time, guidelines, suggestions and comments.

I shall never forget the assistance from some books, internship report, term papers, journals, etc. Above all I really am grateful to authors of these works. I am also grateful to my beloved parents, younger brother, friends and well-wishers for their inspiration that lead me to come to an end of this mammoth work.

Finally, I thank all the persons who have directly or indirectly contributed in preparing this paper.

## **Executive Summary**

This report is based on “**A Study on Loan Portfolio management of Commercial Bank of Ceylon, PLC: An Evaluation**” that is made from experience of working in Credit Admin Department of CBCL. At present, In Bangladesh Banks and Financial Institutions facing some problems especially in credit management as a result some banks are at the verge of ruin because of their huge non-performing and classified loans. Therefore banks are becoming very competitive as various kinds of services and products launched and availed by financial institution are increasing with rapid growth due to in such a small market where 57 Banks and more than 33 NBFIs are chasing too few customers. People and corporate need money to accommodate their livelihoods as well as upgrade with the present status of living; therefore people and corporate take Loan and advances from the bank anytime during their life this loan amount which is funded by pooling money from public saving in exchange of interest. This is why all banks including commercial bank mobilize and channelize their funds with great cautious. This report focuses on different loan portfolios funded and provided By Commercial Bank of Ceylon.

The main objectives of the report are identifying the different types of loan portfolios and their overall management and performance in the last few years. Both primary and secondary sources of data have been used to materialize this report. The first part of this report is organization part which covers organizational overview including its brief history from date of inception, mission, vision, activities, core business and last five years highlights. Second part of the report is project part that covers introductory part which includes introduction, objective, scope, limitation and the rest of the report encompasses literature review, methodology, analysis, findings, recommendations, conclusions and references.

Although Commercial Bank of Ceylon is under foreign commercial bank category, It plays a vital role to accelerate and contribute a lot to the economic growth and activities of the country by extending loans and diversifying its credit portfolio by financing substantial amount of loans in SMEs, Garments, Textile and Spinning, Steel and Engineering, Paper and Paper Products Food and Food Processing, Wholesale and Retail Trading sectors and so on since its inception and renamed in 2003 as CBCL. In the recent years the Bank emphasizes on lending to SMEs and export oriented industries.

The major task for a bank is to succeed in the competitive environment of credit service by managing its loan portfolio in an efficient and effective way. And commercial bank of Ceylon manages the loan portfolio in effective way and earns success and prosperity consistently. It operates in a disciplined and prudent manner with focusing on driving productivity initiatives with delivering sustainable improvements in business performance.

## Table of Content

| SL No.  | Content   | Page No. |
|---|---|----------|
| <b>Part -1<br/>(Organization part)</b>              |   |          |
| 1.1.0   | An Overview of Commercial Bank of Ceylon PLC                    | 1        |
| 1.2.0   | Background of Commercial Bank of Ceylon PLC, Bangladesh         | 1        |
| 1.3.0   | Vision  | 2        |
| 1.4.0   | Mission   | 2        |
| 1.5.0   | Commitment of Commercial Bank of Ceylon.                        | 2        |
| 1.6.0   | Core business activities performed by Commercial Bank of Ceylon | 3        |
| 1.7.0   | Highlights of Last Five Years of CBCL                           | 4        |
| <b>Part -2<br/>(Project overview)</b>               |   |          |
| <b>Chapter-1<br/>(Introduction)</b>                 |   |          |
| 1.1.0   | Rationale of the study  | 6        |
| 1.2.0   | Origin of the Report  | 6        |
| 1.3.0   | Scope of the Study  | 7        |
| 1.4.0   | Objectives of the Study   | 7        |
| 1.5.0   | Limitations of the study  | 7        |
| <b>Chapter-2<br/>(Review of Related Literature)</b> |   |          |
| 2.1.0   | Literature review   | 8-10     |



|   |  |       |
|---|--|-------|
|   | <b>Chapter-3<br/>( Methodology of the Study)</b> |       |
| 3.1.0                                   | Methodology of the Study                         | 11    |
| <b>Chapter-4<br/>(Analysis )</b>        |  |       |
| 4.1.0                                   | Analysis of Loan Portfolio                       | 12-15 |
| 4.2.0                                   | Sector-wise allocation of loans and advance      | 15-17 |
| 4.3.0                                   | Loan Portfolio analysis by region                | 18-19 |
| 4.4.0                                   | Loan Classification and Provisioning             | 19-20 |
| 4.5.0                                   | Trend in Nonperforming Loan                      | 20-23 |
| <b>Chapter-5<br/>(Findings)</b>         |  |       |
| 5.1.0                                   | Findings   | 24-25 |
| <b>Chapter-6<br/>(Recommendations )</b> |  |       |
| 6.1.0                                   | Recommendations                                  | 26-27 |
| <b>Chapter-7<br/>(conclusions)</b>      |  |       |
| 7.1.0                                   | Conclusion                                       | 28    |
|   | <b>Abbreviation</b>                              | 29    |
|   | <b>Research questions</b>                        | 30-31 |
|   | <b>Reference</b>                                 | 32    |

## List of Tables

| SL | Titles  | page |
|----|---|------|
| 1  | Highlights of Last Five Years of CBCL               | 4    |
| 2  | Total loan and growth                               | 13   |
| 3  | Sector-wise allocation of loans and advance         | 16   |
| 4  | Loan Portfolio analysis by regions                  | 18   |
| 5  | Classification status of loans and advances of CBCL | 20   |
| 6  | Total Non-Performing Loan Of CBCL                   | 21   |

## List of Graphs

| SL | Titles                                       | page |
|----|--|------|
| 1  | Total loan of 5years in graphical view       | 14   |
| 2  | Growth of loan portfolios                    | 15   |
| 3  | Sector-wise allocation of loans and advance  | 17   |
| 4  | Credit analysis of different regions of CBCL | 19   |
| 5  | Non-performing loan of last 5 years          | 22   |
| 6  | Year to year % change in non-performing loan | 23   |

**“A Study on Loan Portfolio Management of  
Commercial Bank of Ceylon PLC:  
An Evaluation”**

**Part -1**

**Organizational**

**Overview**

## **1.1.0 An Overview of Commercial Bank of Ceylon PLC**

Commercial Bank of Ceylon PLC is a licensed commercial bank by Bangladesh bank in the category of foreign commercial banks which is mainly a public limited liability company and its ordinary shares are listed on the Main Board of the Colombo Stock Exchange. The Bank's Head Office is located at No. 21, 'Commercial House', Sir Razik Fareed Mawatha, Colombo 01. The Bank had the largest market capitalization among all listed banking institutions in Sri Lanka and was ranked at No. 01 among all listed entities as at end of 2014 (No. 5 as at end 2012). Commercial Bank is the only Sri Lankan bank represented in the Top 1000 Banks in the world for ten consecutive years having first entered into this category in 2008, based on the annual ranking by UK-based 'The Banker' magazine, based on strength of Tier 1 capital, assets size, soundness, performance and profitability. Commercial Bank has been rated 'AAA' by **CRISL** for the seven consecutive years

Commercial Bank of Ceylon PLC (CBC) is one of the leading commercial banks in Sri Lanka with 250 branches and 625 ATMs. The bank has operations in Bangladesh and the Maldives. It has been rated as the Best Bank in Sri Lanka by "Global Finance" for the 14th consecutive year and also as the Bank of the Year by "The Banker" Magazine on seven occasions.

## **1.2.0 Background of Commercial Bank of Ceylon PLC, Bangladesh.**

Over the period of last 14 years of operation in Bangladesh, CBC has expanded its branch network to 11 branches, 2 specialized OBU sections in Dhaka (Gulshan) and Chittagong (CEPZ) and 6 SME centers in Bangsal Road (Dhaka), Progati Sharani (Dhaka), Shantinagar (Dhaka), Tongi (Dhaka), Jubilee Road (Chittagong) and CDA Avenue (Chittagong). Unique products and services, superior service quality and efficient and customized solutions to the requirements of corporate and personal banking customers are hallmarks of the successful stride of CBC in Bangladesh. CBC can trace its history back to 1920 when Eastern Bank, a British overseas bank, opened a branch in Ceylon. In 1957, Chartered Bank (another British overseas bank; see below) acquired Eastern Bank but ran it separately. Four years later, the Government of Ceylon forbade foreign banks to accept deposits from Ceylonese nationals. In response, Eastern Bank incorporated its branch under the name, Commercial Bank of Ceylon

and took 40% of the equity. CBC got Mercantile Bank of India's branches in Kandy, Galle and Jaffna as part of a deal that would remove the government's limit on deposit taking in Mercantile's remaining branches in Colombo and Pettah. The branches actually transferred in 1973. (HSBC had acquired Mercantile in 1959) Then in 1971 Eastern bank amalgamated with Chartered Bank, which four years later merged with Standard Bank to form Bank. In 1997 Standard Chartered divested itself of its 40% stake in CBC. DFCC Bank (formerly Development Finance Corporation of Ceylon) acquired 29.5%. In 2004, CBC acquired Credit Agricole Indosuez's two branches in Bangladesh at Dhaka and Chittagong to become the first Sri Lankan private bank to establish operations outside the country. (Banque Indosuez had opened its branches in Bangladesh in 1980) Also in 2003, the IFC bought 15% of the bank's share capital from Sri Lanka Insurance Corporation.

### 1.3.0 Vision

"To be the Bank of Excellence in Service and Commitments"

### 1.4.0 Mission

"To deliver optimum value to

- Customers
- Employees
- Shareholders and
- the Nation

while ensuring good Corporate Governance"

### 1.5.0 Commitment of Commercial Bank of Ceylon.

This bank is a client centered modern banking organization in Bangladesh. This bank conveys unparalleled administrations to Retail, Small and Medium Scale Enterprises (SMEs), Corporate, Institutional, Governmental and singular customers through branch outlets the nation over. Our business activities focus on the rising requests of the market. This bank's duty regarding the customers is to:

- Provide benefit with high level of polished skill and utilization of current innovation.
- Create long term relationship in light of shared trust.
- Respond to client needs with speed and exactness.
- Share their qualities and convictions.
- Grow as our clients develop.
- Provide items and administration at focused evaluating.
- Ensure well-being and security of clients' assets in trust with us.

### **1.6.0 Core Business activities performed by Commercial Bank of Ceylon.**

Commercial Bank of Ceylon serves its customers in Bangladesh with 11 branches, 6 SME Booths and 2 OBU units to spread over mainly in three cities Dhaka, Chittagong and Sylhet with total manpower of almost 300. The Bank has expanded its services over the years, which covers wide diversified areas of trade, commerce and industry. They have always tried to provide Different products and services to the customers through their wide and ever growing domestic network. Major types of financing are-

- Working Capital Finance
- Short Term Financing
- Mid Term Financing
- Project Finance
- Lease and Long Term Loans
- Corporate Finance
- Trade Finance
- Liquidity Management



- Payment Service

Commercial Bank of Ceylon has just presented some new Banking items like dual money Credit cards, ATM cards accepted across the world and online services which have made fascination among the customers. The Bank has additionally presented constant Internet, SMS and Phone Banking frameworks with all advanced conveyance channels at an early date.

### 1.7.0 Highlights of Last Five Years of CBCL

**Table-1: Five Year performance of CBCL:**

| Particulars                        | Y-2013 | Y-2014 | Y-2015 | Y-2016 | Y-2017 |
|------------------------------------|--------|--------|--------|--------|--------|
| Paid up Capital                    | 4,551  | 4,450  | 4,445  | 4,544  | 4,841  |
| Retained earnings                  | 1,096  | 2,091  | 2,780  | 3,272  | 3,889  |
| Net Profit After Tax And Provision | 846    | 893    | 926    | 590    | 914    |
| Equity Of Share Holders            | 5,655  | 6,558  | 7,238  | 7,827  | 8,742  |
| Number Of Employees BD             | 155    | 189    | 205    | 235    | 283    |

**(BDT Min.)**

# **PART-2**

## **Project overview**

# Introduction

## 1.1.0 Rationale of the study

Considering the fact, the non-performing loans are increasing in both local and foreign commercial banks of Bangladesh. Even though it is very evident that single loan exposure limit cannot be more than 25% of the capital base of a bank, some banks already breached this ground and are not following this rule of Banking Company Act 1991. Loan contains the most critical resource and also the essential wellspring of procuring for the banking organizations. Then again; this (credit) is likewise the real wellspring of risk for the bank administration. A reasonable bank administration ought to dependably attempt to make a well harmony between its return and risk required with the credit portfolio. The decay of credit quality will likewise influence the intermediation effectiveness of the financial organization. In this regard loan portfolio management and evaluation is very significant. The major task for a bank is to survive in the competitive environment of credit service by managing its loan portfolio in an efficient way. And commercial Bank of Ceylon manages the loan portfolio in effective way and earns success and prosperity consistently. It operates in a disciplined and prudent manner with a focus on driving productivity initiatives with delivering sustainable improvements in business performance.

## 1.2.0 Origin of the Report

Every professional degree needs down to earth information of the individual field of a training to be productive. The MBA program of BRAC University additionally has a thesis or internship program with the goal that the understudies can apply their hypothetical learning into genuine useful circumstance. This temporary position report has been arranged every expert degree needs common sense learning of the particular field of teaching to be productive. MBA towards the execution of the halfway prerequisite of the MBA program as approved by the BRAC Business School. This proposed report has been accomplished for Loan portfolio Analysis of Commercial Bank of Ceylon. What's more the report would be submitted to Prof. Dr. Salehuddin Ahmed, professor, BBS, BRAC University .I have attempted my level best to appear in this report. To assess the Loan Portfolio of Commercial Bank of Ceylon and assess how Commercial Bank of Ceylon deals with its credit effectively.

### 1.3.0 Scope of the Study

This report will be managing the overview of CBC and fundamentally manages "Loan Portfolio" of this Bank. The subject is fixed. Be that as it may, the report has endeavored to cover the portfolio of CBC targets, capacities, administration, exposure limit, business approach and different things. This report has likewise specified a few issues of CBC's Operating frameworks and its answers. The Research Report observational part incorporates just the distributed data and current practices of the Commercial Bank of Ceylon.

### 1.4.0 Objectives of the Study

The main objective of this report is to analyze the performance of corporate and consumer loan portfolio of CBC. To achieve this main objective the following sub objectives have been undertaken:

- To give a theoretical discussion on total loan portfolio of CBC.
- To recommend to develop better loan portfolio.
- To identify problem of loan default.

### 1.5.0 Limitations of the study

The following aspects have limited the scope for going into a more deep discussion on this topic:

- The main constraints of the study are insufficiency of information, which was required for the study.
- Banks policy of not disclosing some sensitive data and information for obvious reason posed an obstacle to prepare more informative report.
- Due to the limitations of time and to protect the organizational confidentiality many aspects of the report are not in depth.
- Although this public limited company listed in Colombo, like the local private commercial banks commercial Bank of Ceylon keeps some information restricted such as the actual amount of classified loans.
- Financial Statements only portray the figures/numbers and their break down but do not clarify the justification in most of the time.

## Review of Related Literature

### 2.1.0 Literature review

Bank of Mauritius, (December 2003) Credit infers a course of action of, alternately feeling from claiming obligation in regards to giving, subsidies or substitutes for reserves, with An borrower, including reeling sheet exchanges, clients' credit extensions, overdrafts, bills purchased and denoted down, Furthermore once more leases.

Enron and Lehman Brothers, see Hill (2004) In the wake for Different fake evaluations about advance portfolio Previously, solitary instances possible planned blunders in the showcase for sorted out store items, and the exhibit sovereign rating crisis Previously, Europe, those control What's more honest about work places need come into the fixation of open common contention. However, assessments stay a planned stronghold previously, capital businesses. Toward and by, through heading material to banks and funds, examinations are feasible mandatory Similarly as checking instruments despite the reality that there is no duty to circulate FICO scores. Along these lines, it is striking the thing that effects these subtly asked measures, in perspective of a blue-penciled computation, have on capital businesses, Will delineate, the downsizing of a organization inside and out Fabricate its capital costs and effect its stock cost.

Jorion and Zhang (2007) the information of loan portfolio assessments can be essentially measured in two ways. Initial, one can relate evaluations inside a similar class to the recurrence of default. The second is to explore the data substance of changes in credit scores on the modification procedure of costs and returns of bonds and stocks The consequences of the last line of a request are examined later We initially investigates the consequences of the previous line.

Gonzales et al. (2004) Appraisals influence money markets, impacting them particularly and also clinched alongside an indirect way through rating built control. The prompt effect from claiming assessments ahead yields recommends that evaluations hold information that is openly inaccessible, Also that business parts are henceforth not successful. In this sense, correct examinations around promote progression test those speculative perfect of business

sector effectiveness. Development determinants about bond cost would tax collection, proficient hazard, instability, spare advertise activity, Also liquidity.

[Abedi \(2000\)](#) the initial step of credit risk comprises screening customers to guarantee that they have the readiness and capacity to reimburse an advance. Microfinance Institutions utilize the 5Cs model of credit to assess a client as a potential borrower .The 5Cs help to build advance execution as they become acquainted with their clients better. These 5Cs are: character, limit, insurance, capital and condition.

[Altman \(1971\)](#) Those peril from claiming unfavorable decision which happens when banks advance with associations which in this way come up short (sort ii blunder), At they don't advance with associations which try ahead to wind up detectably productive that makes (sort i blunder). Proper credit assessment is vital with assign development of the arranged borrower will avoid these blunders.

[Constantinescu et al. \(2010\)](#) Those credit scoring model may be An characterization system for which data assembled starting with requisition shapes for new alternately extended credit line need aid used to consign credit hopefuls with extraordinary or terrible reputation danger classes that is suitable for benefits of the business bank to evaluate real praiseworthy borrower.

In the perspective of [Nwankwo \(2000\)](#) credit constitutes the biggest single salary gaining resource in the arrangement of generally banks. This clarifies why banks spend colossal assets to gauge, screen and oversee credit quality. This is naturally a training that effect extraordinarily on the loaning conduct of banks as vast assets are included.

[Chodechai \(2004\)](#) Same time exploring variables that impact financing fetches level from claiming crediting volume and security setting in the development decision for banks says: banks must be careful with their assessing decisions as perspectives with crediting as banks can't accuse propel rates that would excessively awful low on the fact that the money starting with those premium pay won't be addition with fare the well of the overhead of stores, general costs and the reduction from claiming wage from a couple borrowers that don't pay.

[Nnanna \(2005\)](#) focused on that Bank loaning choices for the most part are full with a lot of dangers which requires a lot of alert this part of saving money operations. The accomplishment of each loaning action, as it were, thusly depends with respect to the credit experts to complete great credit investigation, introduction, organizing and announcing.

Chodechai (2004) Centered on that banks advance decisions would similarly influenced eventually perusing as far back as Acquaintanceship for those borrowers. Previous relationship Likewise for every him help banks should get additional private data, provoking a greater amount accurate cognizance of the borrower's benefits of the business and budgetary situation. Credit pro might limit its danger through previous association.

(Bangladesh Bank, 2012) Credit risk emerges from the potential that a bank's borrower will neglect to meet its commitments as per concurred terms. Portfolio risk likewise alludes the danger of negative consequences for the budgetary outcome and capital of the bank caused by borrower's default on its commitments to the bank The hazard that a borrower or counterparty may neglect to satisfy a commitment .The appraisal of credit chance includes assessing both the likelihood of default by the counterparty, obligator, or backer and the introduction or monetary effect on the approved organization in case of default

(Basel, 1999) Credit portfolio danger may be those danger that propel which need been permitted eventually perusing a bank won't be whichever partly reimbursed on time or totally Furthermore the place there may be a risk of customer or counterpart default. Credit portfolio organization types execute those banks should develop an unmistakable system for endorsing new recognize Furthermore also for those extension to existing credit. These methods similarly take after watching for particular forethought Also different correct strides are taken to control alternately allay those peril for connected crediting.

## **Methodology of the Study**

### **3.1.0 Methodology of the Study**

To prepare the report, both primary and secondary sources are used to strengthen and make this report more informative and effective.

The primary sources of my information are as below:

- Face to face conversation with onsite supervisors and staffs.
- Direct observation.
- File study.
- Practical work experience

The secondary sources of my information are as below:

- Annual reports of last 6 years of commercial Bank of Ceylon.
- Different papers of commercial Bank of Ceylon
- Various publications of Bangladesh bank.
- Website of the bank

Different newspapers, journals and business magazines



## Analysis

### 4.1.0 Analysis of Loan Portfolio

CBCL puts its all-out effort in an organized manner for effective allocation of loans and advances that sustained in coming years. It reflects the attempt taken in the previous years. In the year 2017, Bank's effort was to do deposit mobilization and granting loans through checking the CIB Reports of quality customers in its existing and prospective clients by more affordable financing in new ventures especially in startup and Women's Entrepreneurship as well as retaining and nourishing old customers. This resulted in helped making its growth and substantial progress like previous years. In spite of having some economic downturn at the beginning of the year the, aggregated loans and advances of our bank had a substantial growth of 31.45% over the previous year and amounted to BDT 32,568 million as on 31 December 2017 comparing to BDT 24,775 million in December 2016 and in percentage 8.75% which is four times higher than 2016. This massive change took place in the year since bank focused on making its loan portfolio basket by investing in new and diversified loans fields like SME and Agro sector to maximize profits holding risk at a minimum level. This effort helped the bank pursue its aim of maintaining sustainable growth and success in the industry.

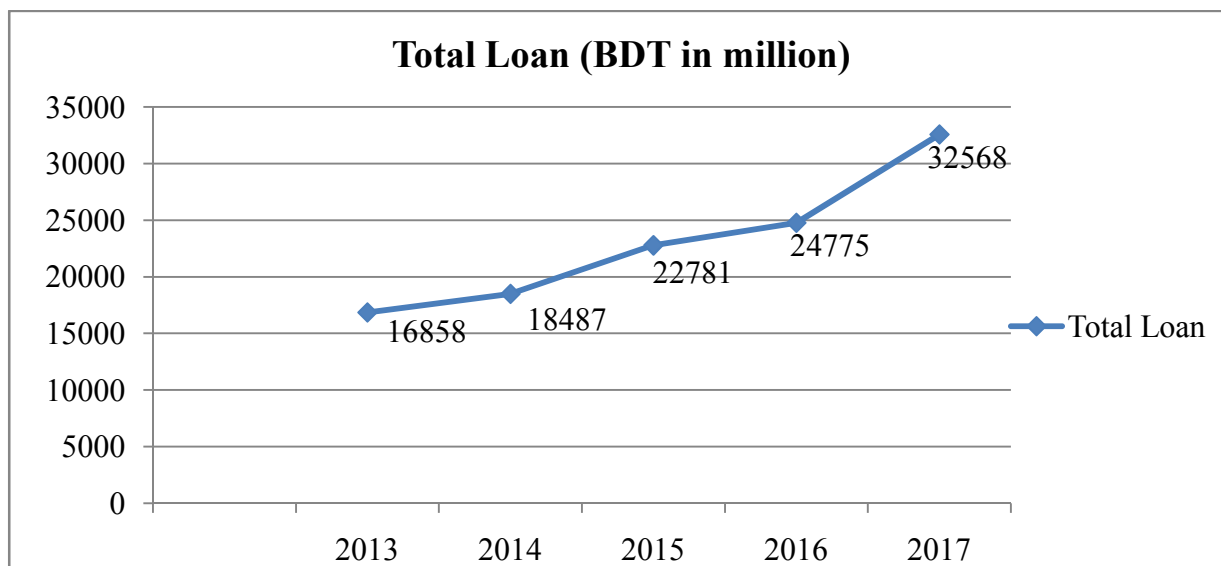
Commercial Bank of Ceylon plays a substantial role to accelerate the economic activities of the country by expanding loans and advances in agriculture, establishment of large industry, Medium and Small industries enterprises, foreign trades and so on since it's renamed and started as CBCL in 2003. In this process the Bank has diversified its credit portfolio by financing substantial amount of loans in SMEs, Garments, Textile and Spinning, Steel and Engineering, Paper and Paper Products, Food and Food Processing, Wholesale and Retail Trading sectors and so on. In the recent years the Bank focuses on lending to SMEs and export oriented industries through deposits mobilization. In 2017 the bank disbursed loans and advances for BDT 32,568 million and recovered BDT. 30,469.90 million As a result the total lending of the Bank stood at Tk. 32,568 million (consolidated) as on 31st December, 2017 resulting in a growth of 31.45% over previous year.

Bank's total lending and its growth rate for the last five years are given below:

**Table 2: Total loan and growth**

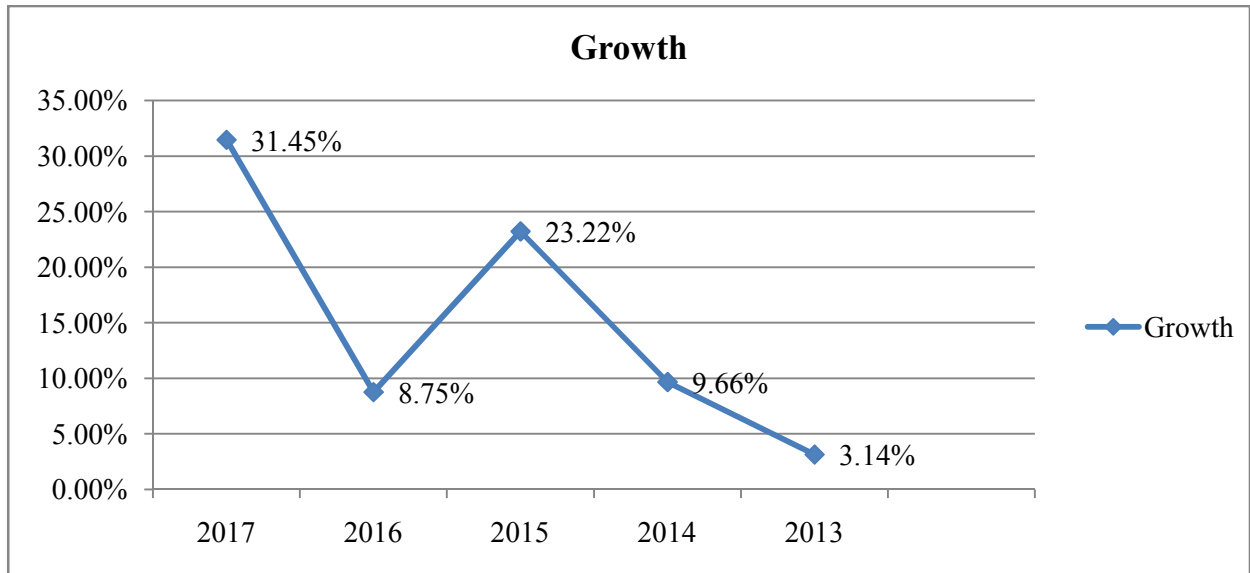
| <b>Year</b> | <b>Loan<br/>BDT (in millions)</b> | <b>Growth</b> |
|-------------|-----------------------------------|---------------|
| <b>2017</b> | <b>32,568</b>                     | <b>31.45%</b> |
| <b>2016</b> | <b>24,775</b>                     | <b>8.75%</b>  |
| <b>2015</b> | <b>22,781</b>                     | <b>23.22%</b> |
| <b>2014</b> | <b>18,487</b>                     | <b>9.66%</b>  |
| <b>2013</b> | <b>16,858</b>                     | <b>3.14%</b>  |

**Graph-1-Total loan of last 5 years in graphical view**



This graph shows the upward trend of providing loans among the 5 years from year 2013 to year 2017. At 2013 there was Tk. 1685 million of loans. From that year 2015 it has been evident that this bank had a mild and increasing trend of loan and Advances. In the year 2015 and 2017 CBCL had Tk. 22781 and 32568 million loan respectively which are in the highest growth 23.22% and 31.45% among these five years which were higher than their respective previous years by 7793 and 4294 million Tk. This indicates that this bank is in the proper process of maintaining loan for absorbing or mitigating the uncertain risks may arise at any time. This analysis can be found by calculating based on loan from year to year; the graph of year to year percentage change of loan is illustrated in next page with a graph.

**Graph 2: Growth of Loan portfolio**



This graph absolutely points out that in year 2017 had the highest number of percentage growth in the last 5 years. Although there was a continuous rising from 2013 till 2015 with one of the highest growth with 23.22% but soon in the next year it had been plummeted to 8.75% that gives us a clear image of both increasing and decreasing trends of percentage change.

#### **4.2.0 Sector-wise allocation of loans and advance:**

CBCL loan allocation and disbursement encompasses the following major sectors

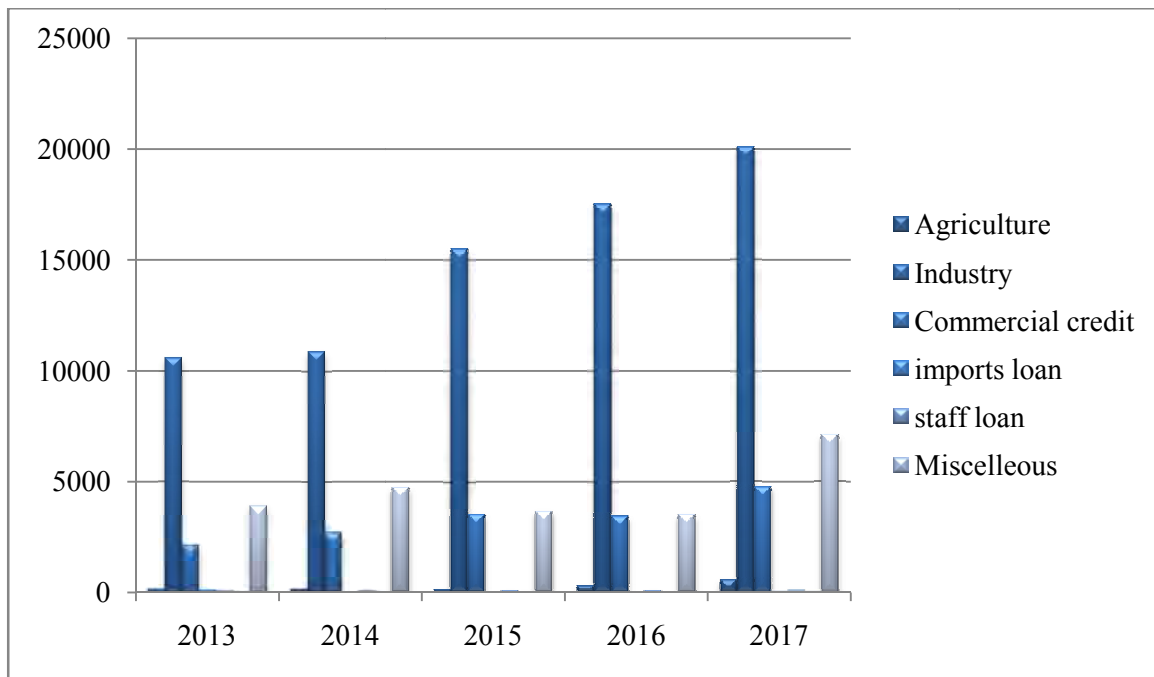
- Industry
- Commercial credit
- agriculture
- import loan
- Staff loan
- Miscellaneous

**Table-3: Sector-wise allocation of loans and advance (BDT Million)**

| Year | Industry(along with Working Capital) | Commer cial Credit | Agricul ture | Import loan | Staff loan | Miscellaneous |
|------|--------------------------------------|--------------------|--------------|-------------|------------|---------------|
| 2013 | <b>10583</b>                         | <b>2177</b>        | <b>172</b>   | <b>125</b>  | <b>96</b>  | <b>3924</b>   |
| 2014 | <b>10866</b>                         | <b>2736</b>        | <b>152</b>   | <b>14</b>   | <b>80</b>  | <b>4731</b>   |
| 2015 | <b>15492</b>                         | <b>3520</b>        | <b>114</b>   | <b>11</b>   | <b>76</b>  | <b>3654</b>   |
| 2016 | <b>17533</b>                         | <b>3434</b>        | <b>292</b>   | <b>20</b>   | <b>77</b>  | <b>3514</b>   |
| 2017 | <b>20101</b>                         | <b>4764</b>        | <b>574</b>   | <b>31</b>   | <b>85</b>  | <b>7128</b>   |

Source: Annual Report of CBCL 2013 -2017

**Graph-3: Sector-wise Allocation of Loans and Advances**



The CBCLs maximum loan disbursement sector was industry (along with working capital) and second most allocating sector is commercial credit. Since 2013 till 2017 industry loan and commercial credit have been continuously increasing. The CBCL puts less emphasis and less preferable areas are import and export loans, SMEs and agriculture and so on.

### 4.3.0 Loan Portfolio analysis by region

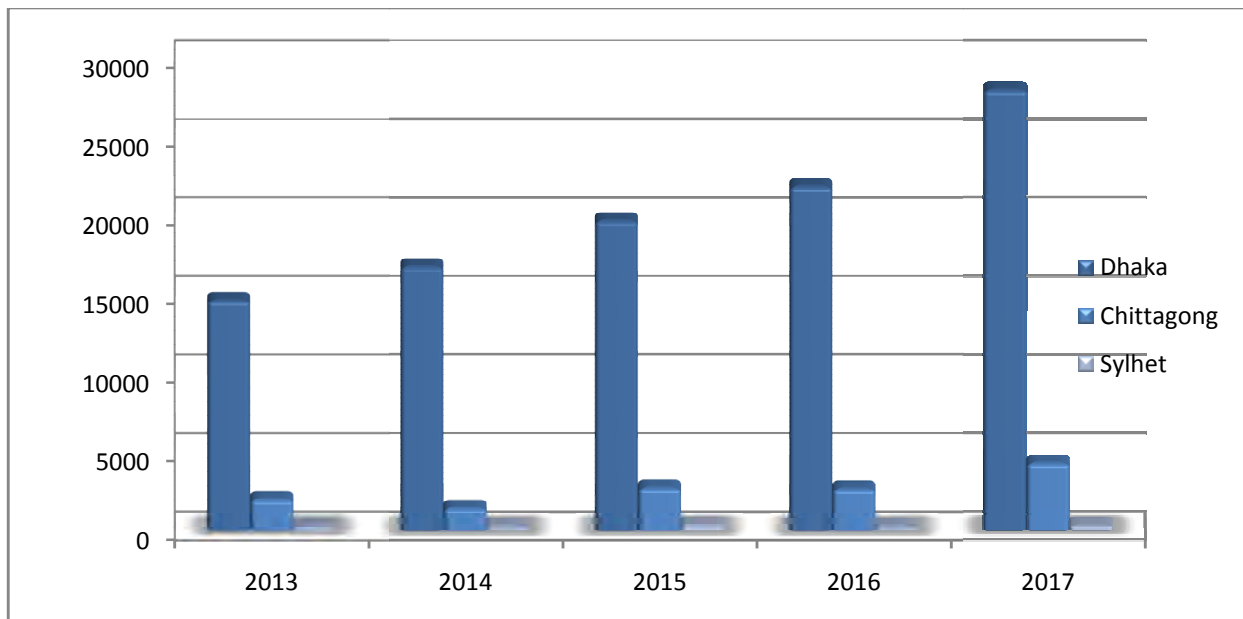
Commercial Bank of Ceylon has maximum allocation its loan in Dhaka region. More than eighty percent of the portfolio has been disbursed in Dhaka area if we do comparative analysis with other regions. Dhaka has more recovery and disbursement rate than the other two areas. Commercial Bank of Ceylon allotted its 86.04% of its portfolio in Dhaka in 2017. The last five years loan portfolio is shown below:

**Table-4: Loan Portfolio analysis by regions**

| Year        | Dhaka    | Chittagong | Sylhet  |
|-------------|----------|------------|---------|
| <b>2017</b> | 28024.99 | 4258.95    | 284.50  |
|             | (86.04%) | (13.07%)   | (0.89%) |
| <b>2016</b> | 21878.7  | 2663.46    | 233.28  |
|             | (88.30%) | (10.75%)   | (0.95%) |
| <b>2015</b> | 19736.33 | 2716.10    | 329.43  |
|             | (86.63%) | (11.92%)   | (0.45%) |
| <b>2014</b> | 16809.10 | 1437.50    | 240.48  |
|             | (90.92%) | (7.77%)    | (1.3%)  |
| <b>2013</b> | 14663.38 | 1985.41    | 209.25  |
|             | (86.98%) | (11.77%)   | (1.25%) |

\*Figure within the parenthesis delineates loan portfolio in a percentage form

**Graph-4: Credit analysis of different regions of CBCL**



So, most of the loans in the portfolio disbursed in Dhaka division and it is obvious that the increasing trend and mounted to 28 billion from 14 billion which is almost double in the figure in last five years. In Chittagong CBCL has only one Branches and two SME centers and in Sylhet CBCL also has only one Branch so the distributed loan portfolio is less compared to other divisions.

#### **4.4.0 Loan Classification and Provisioning**

Loan Classification is a process of classifying the loans based on their rate of interest, quality, performance and return and risk associated with them which indicates the health of the overall credit portfolio. The Bank Management and loan Committee always focuses on post disbursement strong keep monitoring and follow-up activities to recover the loans from being classified. Being a 100% compliant Bank, Commercial Bank of Ceylon categorizes its loan portfolio and maintains required provisions against them as per guidelines of Bangladesh Bank given from time to time. The Bank endeavors its best to reduce the existing classified loans by way of cash recovery, rescheduling in some deserving cases and writing-off the loans complying with the rules and regulations of Bangladesh Bank. Despite slow progress and sluggish economic condition of the country, this Bank could maintain the percentage of classified loans at 0.99% as on December 31, 2017. On the other hand, in 2017 the



CBCL kept provisions of BDT 125.28 million for classified, unclassified loans and off-balance-sheet items against required provisions of BDT 122.5 million

**Table-5: Classification status of loans and advances of CBCL:**

Unclassified includes standard and special mention account (SMA) on the other hand the rest are included under classified loans.

| Status                       | Amount         |        |        |        |         |
|------------------------------|----------------|--------|--------|--------|---------|
|                              | BDT in million |        |        |        |         |
|                              | 2013           | 2014   | 2015   | 2016   | 2017    |
| Standard                     | 16,768         | 18,197 | 22,215 | 24,235 | 32,234  |
| Special Mention Account(SMA) | 2              | 54     | 60     | 36     | 9       |
| Sub-standard                 | 13             | 8      | 146    | 22     | 0.374   |
| Doubtful                     | 5              | 0.640  | 66     | 14     | 0.635   |
| Bad/Loss                     | 67             | 2 25   | 291    | 466    | 323     |
| Grand Total                  | 16,858         | 18,487 | 22781  | 24,775 | 3 2,568 |

#### 4.5.0 Trend in Nonperforming Loan

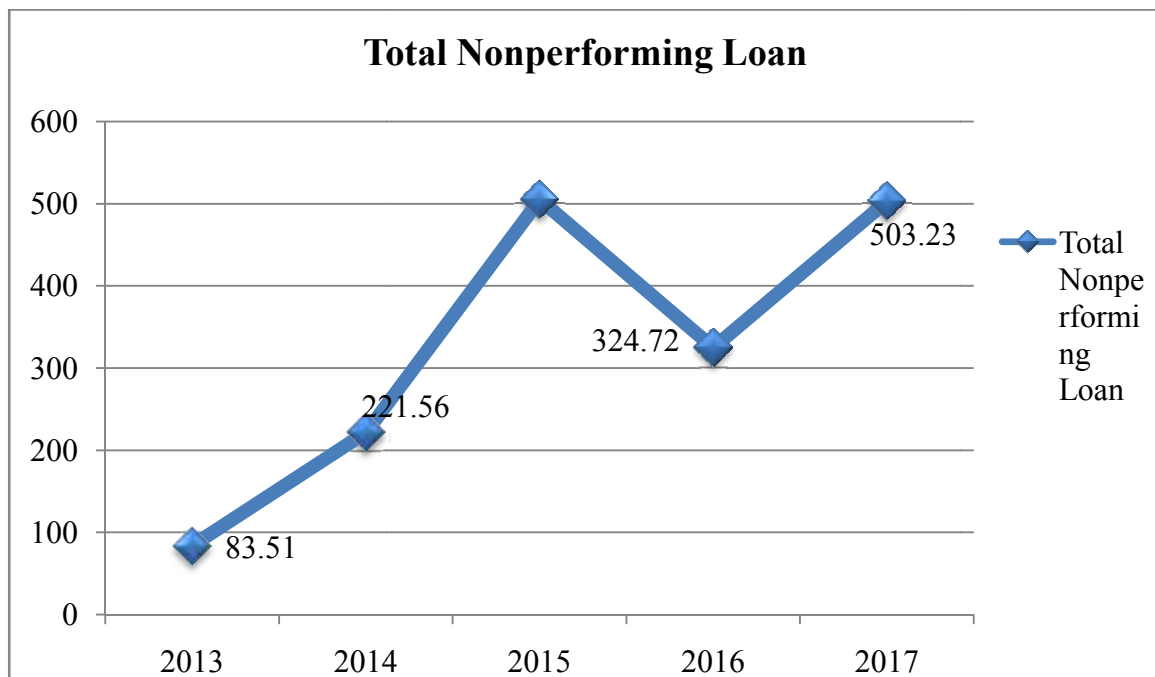
Bank nonperforming loans to total gross loans are the value of nonperforming loans divided by the total value of the loan portfolio (including nonperforming loans before the deduction of specific loan-loss provisions). The total amount of loan which is found as nonperforming loan should be the gross total value of the total disbursed loan as marked on the balance sheet, not just the value of loan amount that is under non-performing loan.

**Table-6: Total Nonperforming Loan of CBCL**

| <b>Year</b> | <b>Total Loan</b> | <b>Performing Loan</b> | <b>Non-performing Loan</b> | <b>% of Non-performing loan</b> |
|-------------|-------------------|------------------------|----------------------------|---------------------------------|
| <b>2017</b> | <b>32568</b>      | <b>32064.77</b>        | <b>503.23</b>              | <b>1.54%</b>                    |
| <b>2016</b> | <b>24775</b>      | <b>24450.28</b>        | <b>324.72</b>              | <b>1.31%</b>                    |
| <b>2015</b> | <b>22781</b>      | <b>22275.86</b>        | <b>505.14</b>              | <b>2.21%</b>                    |
| <b>2014</b> | <b>18487</b>      | <b>18265.44</b>        | <b>221.56</b>              | <b>1.19%</b>                    |
| <b>2013</b> | <b>16858</b>      | <b>16771.49</b>        | <b>86.51</b>               | <b>0.5%</b>                     |

(BDT million)

**Graph 5: Total Nonperforming Loan of last 5 years**

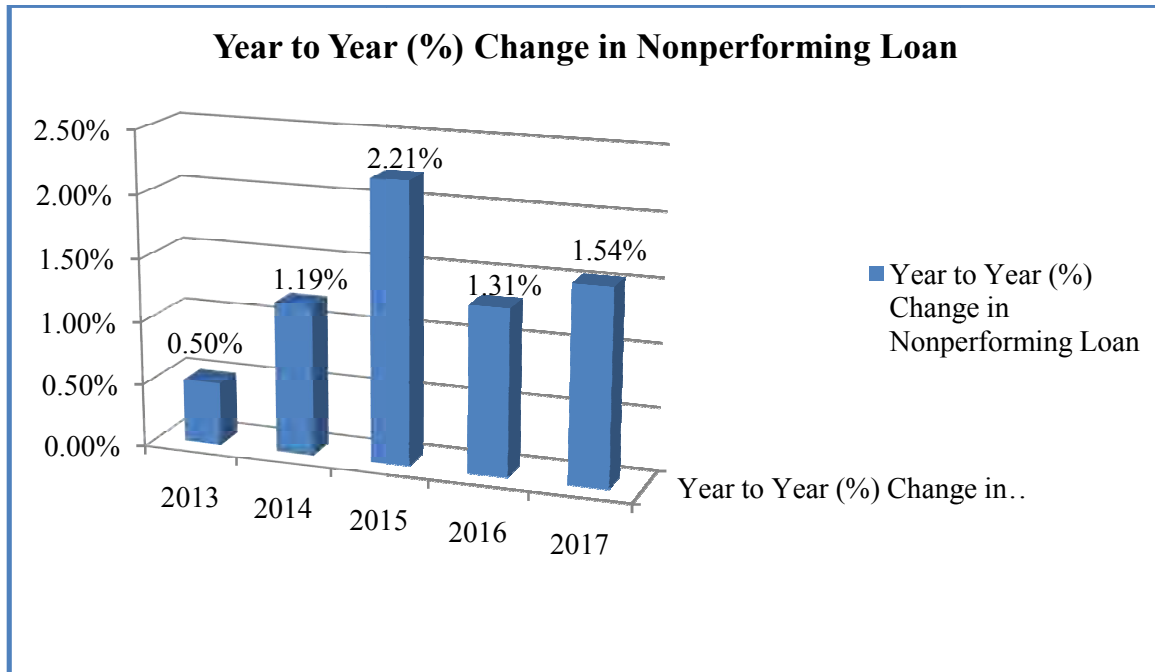


(BDT Million)

This graph illustrates the total ups and downs of Nonperforming loans of last 5 years from year 2013 to year 2017. In the year 2013 there was only 83.51 million of loans. From that year CBCL have been experiencing an increasing trend of Nonperforming loan that culminated to 503.23 million in year 2017. But In the year 2015 CBCL had maximum non-performing loans among these last five years which is 505.14 million and in percentage 2.21% higher than the previous year 2014 by 1.02%. But it is still having a very minimum amount of nonperforming loan in the banking industry of Bangladesh if we do compare with others local and foreign commercial banks in this country. This indicates that this bank is very careful in case of loan sanctioning and does due verification and evaluation before approval of loans considering clients' CIB reports. Otherwise by improper process of maintaining loan, uncertain risks may arise at any time. That is why this bank is still making proceeds and succeeding in this sector even though some commercial banks running into debt due to their huge non-performing loans, loan mismanagement and disbursement of a lot of classified loans.

This analysis can be formulized by calculating the changing position of loan from year to year; depicting with a graph of year to year percentage change of nonperforming loans below.

**Graph 6: Year to Year % Change in Nonperforming Loan**



# Findings

## 5.1.0 Findings

After a thorough and comprehensive analysis on the Loan Portfolio of commercial bank of Ceylon, I have come up with some key findings and found the following points regarding the loan portfolio analysis for the bank. All of these findings are my personal opinions and views on this report. Therefore I have summarized these findings while preparing the report which are as under:

- CBCL had an upward trend in Loan allocation which shows that banks perform a major role in the economic advancement and development contribution for Bangladesh. CBCL disburses its 61.72% of loan for Industrial purpose which is the most steering tool and important source of development, but CBCL should increase their loan disbursement in other areas too like agriculture, SMEs because these areas are directly related to regional country wide development.
- The CBCL loan disbursement is widely diversified though it practices in a small basis.
- Industrial sector and commercial credits are the most preferable loan allocation areas of CBCL. This trend has been changing over the years as Bank has started diversifying its credit portfolio by financing substantial amount of loans in SMEs, Garments, Textile and Spinning, Steel and Engineering, Paper and Paper Products, Food and Food Processing, Wholesale and Retail Trading sectors and so on.
- In some cases other banks face the problem of loan default and recovery because the credit officer fails to value collateral property. But CBCL loan committee try to do perfect loan appraisal by investigating Client's CIB report before sanctioning loans and take very thoughtful decisions regarding doubtful loan application by political person. Here perfect evaluation means Mortgage or other collateral will be equivalent to the risk of nonperforming loan. Officials must follow with due care.
- Performing and nonperforming loan both are increasing but CBCL has one of the lowest percentage of Non-performing in Bangladesh. It had highest percentage in 2015 which is very low 2.21%.
- Though this bank uses advance credit management and risk mitigation technique but it suffers from the minimum Non Performing Loan which is mainly derived from the

loopholes at the pre-disbursement and monitoring level. But in case of the Nonperforming Loan requirement that bank kept the lower side and decreasing of percentage year on year from 2016 compared to others commercial Banks.

- CBCL keeps adequate provision against loan and advance. Because of its holistic monitoring it has very minimum classified loans. It had maximum loans in this category like sub-standard, doubtful and Bad/loss 22, 14, and 466 respectively in BDT million in the year of 2016.

## Recommendations

### 6.1.0 Recommendations

Commercial Bank of Ceylon is one of the best foreign commercial bank in the country with exemplary operating performance. Although it is 100% compliant bank, A few suggestions are given for this Bank's betterment which are portrayed beneath. The proposals shared below are not choices rather they are just recommendations to upgrade the loan portfolio performance and quality of Commercial Bank of Ceylon (CBCL). The suggestions are made on the basis of holistic analysis and quite investigation and these are as under:

- It has been evident that CBCL's Maximum percentage of disbursed loan is given to the industrial sectors or large sectors. It organizedly avoids one of the important sectors which is agriculture sector. Because this sector is a risky sector right now in the context of Bangladesh. But for ensuring country's overall development, they must diversify their Loans in agriculture and SME sectors too.
- After last five years regional analysis, it has also been noticed that CBCL distributes most of its loan in Dhaka region only where it covers 86.04%. They should provide more loans to other districts too in order to incorporate all the people in financial services across the country.
- CBCL must have to consider distributing more loans in rural area. Commercial Bank of Ceylon also should provide short-term scheme like Micro credit to poor people in order to bring them into the mainstream of economy.
- Having set benchmark in banking in **Sri Lanka** as it is number one bank there and in Bangladesh it has been awarded AAA rated by CRISL in last seven consecutive years. Therefore day by day their demand is increasing and it is quite hard to provide full fledged services with a few branches and SME booths and OBU units. Though it is planning to open a branch in Khulna, it also needs to put more attention toward the expansion of branch network mainly in other city and rural areas.
- The bank should increase its loan allocating areas and emphasis more on loan diversification like loans on different promising sectors and newly invented thrust sectors in the economy like start up business and entrepreneurship loan.

- This bank does and engages in promotional activities in a small basis .so Marketing activities should be improved to explore its potential target market. As we see that, Media coverage of Commercial Bank of Ceylon is not so strong.
- Being a 100% compliant bank ,CBCL should build separate loan recovery center as well as increasing loan disbursement if it happens though then their non-performing loan amount will be reduced. And the amount of non-performing loan should be reduced by proper appraisal of loan proposal and monitoring.



## Conclusions

### 7.1.0 Conclusion

A Banker can't rest soundly with having bad debt in his portfolio. The disappointment of banks arises predominantly because of awful advances which happen because of bad administration of the advances and loan portfolio. Hence any banks must be amazingly worried about its loan portfolio and credit arrangement. But in this area Commercial Bank of Ceylon has strong capacity to deal with its credit portfolio skillfully and kept combined advance at an exceptionally low rate. The Credit Management framework that may appear to be fit today, however, may not work tomorrow. CBCL has already built its Credit Interest Risk Department (CIRD) so that it can tackle and reduce its credit risk as low as possible. By taking consideration the thoughtful, the quick changing, the dynamic worldwide economy, Commercial Bank of Ceylon has made a vigorous credit administration arrangements and methods that are continuously applying to these progressions. Being a Bank in the foreign category, it has been growing smoothly in the intense and holistic competitive banking industry in Bangladesh with over 100 crore turnover. Despite having some restrictions because of Bangladesh Bank rules and Banking company act 1991, it has every one of the possibilities to explore and enter into the new investing market. In the event that the shortcoming like terrorist financing and other money laundering issues which are managed by this bank sagaciously and conforming a steady and talented administration having respect to suitable corporate administration in present day robotization and innovation in the financial services. Now in the year of 2018 a few banks facing liquidity crisis and breached the rule of BB in case of single exposure limit and Non-performing loans both are dangers for collapsing a bank. These issues couldn't touch this bank as it is normal for Commercial Bank of Ceylon which pools a huge amount of fund from Sri Lanka and invests in Bangladesh for advancing up in the progression ladders of accomplishment in the near future through proper credit administration.

**Abbreviation**

CBCL – Commercial Bank of Ceylon PLC, Ltd

BB – Bangladesh Bank

GB – General Banking

FDR – Fixed Deposit Receipt

DPS – Deposit Pension Scheme

SDS – Special Deposit Scheme

A/C – Account

BG - Bank Guarantee

H.O. – Head Office

CIB - Credit Information Bureau

L/C – Letter of Credit

SOD-Secured Overdrafts

## **RESEARCH QUESTIONS TO BE RAISED:**

1. Does the CBC have specific policies for managing loan risks or special credit risk management department?
2. How regularly does CBCL review its credit policy?
3. How does CBC evaluate its understanding of credit risk management practices towards the achievement of good asset quality in banking?
4. What are some of the loan products offered by commercial bank of Ceylon and are these better than local and foreign commercial banks product in case of economic contribution to BD?
5. Is CBC's Loan disbursement well-diversified or what are the areas that CBC covers under Loan allocation?
6. Which is the dominant sector in this bank's loan book?
7. Is CBC's loan portfolio management is more efficient than other local and foreign commercial banks?
7. To what extent does credit diversification influence have on CBC's loan portfolio quality?
8. For maintaining CRR/SLR, How does CBC handle large scale loan disbursement considering single exposure limit set by BB whether does it go for syndicated loan with local commercial banks or not?
9. What are the credit evaluation criteria practices employed to determine the ability of the borrowers to service the debt and hence his credit worthiness and whether it is better than other local and foreign commercial banks or not?
10. How does CBC rate credit worthiness of a client and is it more effective than other foreign commercial banks in BD?
11. To what extent do credit criteria of CBC influence loan portfolio quality?
12. What are the measures adopted by this bank to reduce its non-performing loan to minimum level?

13. What are constraints and challenges faced by CBC to sanction loan and credits to its corporate clients in case of loan size and are they the same for local commercial banks?
14. Are the exposures limits of Bangladesh Bank for classified and non-classified loans equitable with foreign and local commercial banks?
15. CBC is more cautious about money laundering and terrorist financing. Is CBC ensuring sound banking and stronger in this area than other commercial banks?
16. Is CBC's profit and turnover from BD operation higher than its other countries operation or higher than other foreign banks in Bangladesh?

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