

Internship Report
On
Credit Risk Management of The City Bank Limited





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Internship Report
On
Credit Risk Management of The City Bank Limited

Course Code: BUS400 | Internship

Submitted To

Shamim Ahmed

Lecturer & Assistant Coordinator

BRAC Business School

BRAC University

Submitted By

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BRAC Business School

BRAC University

Date of Submission: 3rd September, 2018

Letter of Transmittal

2nd August, 2018

To

Shamim Ahmed

Lecturer & Assistant Coordinator

BRAC University

66 Mohakhali, Dhaka-1212, Bangladesh.

Subject: Submission of Internship Report on “**Credit Risk Management of The City Bank Limited**”.

Dear Sir,

This is my immense pleasure to have the opportunity to submit the Internship Report on “**Credit Risk Management of The City Bank Limited**”, which was assigned by you as an integral part of the Internship Program. Throughout the internship period, I have gained ample knowledge regarding both the organization’s operation and its culture.

I have given my utmost effort to make an authentic and comprehensive report. In my report, I have tried to describe how The City Bank Limited deals with the credit risk of its customers along with my recommendations regarding this based on my theoretical knowledge and observation.

I would like to thank you for encouraging me to complete my internship report on such ongoing unsettling issue among the banks of our country and I hope you would appreciate my thoughtful approach.

Therefore, I would like to place this report for your kind judgment and valuable suggestion.

Sincerely Yours,

Md. Samir Ahmed

ID: 14304172

BRAC Business School

BRAC University

Letter of Endorsement

The Internship Report entitled “**Credit Risk Management of The City Bank Limited**” has been submitted to BRAC Business School, for the purpose of completing the degree of Bachelor of Business Administration, by Md. Samir Ahmed, ID- 14304172, concentration in Finance and Marketing from BRAC University on 2nd August, 2018. The report has been accepted and will be presented to the Internship Defense Committee for evaluation.

I wish every success and prosperity of his career and life.

Shamim Ahmed

Internship Supervisor Faculty

Lecturer & Assistant Coordinator

BRAC Business School

BRAC University



BRAC
UNIVERSITY

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Acknowledgment

At first, I would like to show my gratitude to the Almighty Allah. Without his support, I would never have been able to accomplish this report writing within the given time period.

The internship opportunity that I got at **The City Bank Limited (CBL)** was really great. It helped me to learn a number of things, especially professional dealings. I myself consider a fortunate one that I got the chance to be in this amazing group. I really appreciate the support that I got throughout the internship period along with the report writing time.

I would like to take the opportunity to express my heartfelt gratitude towards my internship supervisor faculty **Mr. Shamim Ahmed, Lecturer & Assistant Coordinator**, BRAC Business School, for his immense support and guidance during the whole internship period. I am pretty much fortunate to have him as my supervisor faculty. From choosing the internship report's topic till its completion, he has been with me and helped me to complete it successfully.

Secondly, I must thank my direct internship supervisor **Mr. Mohammad Naim, Associate Manager**, Credit and Collection (Retail), The City Bank Limited, for his relentless supervision and guidance. He helped me to learn loads of things like how the banking industry works especially the operations and the projects of The City Bank Ltd. that they undertake regularly. Besides, he made a significant contribution while I was writing my report. Without his effort, it would be able to make this report much informative.

I would like to express my deepest thanks to **Mr. Md. Belal Hossain, senior officer** (Documentation) and **Mr. Ishtiaq Karim, Assistant Manager**, Retail Finance Center (RFC), The City Bank Limited, for providing valuable data and information regarding their respective fields. I am really grateful to have them around me and appreciate their effort to make my report more data-driven.

Lastly, I am really grateful to BRAC University, which actually helped me to acquire skillset during my university time which played a dominant role to perform the assigned tasks in the organization.

Executive Summary

City Bank Limited (CBL) is one of the oldest reputed financial institutions in Bangladesh established in the year 1983. Since the very inception of the commercial banking industry in Bangladesh, it has been dominating and contributing to the country's economy.

The topic of my internship report is **“Credit Risk Management of The City Bank Limited”**, which has attained the latest highlighted feature in the banking industry in Bangladesh. Due to the increased competition among both the commercial and the Gov. Banks in Bangladesh, this Credit management issues has gained extensive attention. The main objective of my report is to have a complete knowledge of the activities performed in Credit Risk Management of City Bank Limited.

This report initially depicts the overall financial indicators of The City Bank Limited, and how they are doing in this competitive commercial banking industry in Bangladesh. Their financial strength, management, credit and collection policies and their crisis management stands are described in this report. I have described what measures City Bank Ltd. takes to this on-going issue of credit risk. This report comprises with the Credit facilities that CBL offers to its customers.

In this report, I have tried to discuss CBL's credit facilities under retail, corporate and SME units. I have mainly focused on the retail loan of CBL due to limitation of the study. I discussed credit facilities that retail department provide like Home Loan, Auto Loan, Personal Loan, and Secured Loan. Here I showed the retail loan performance, total outstanding loan amount, total Nonperforming Loan (NPL) amount and segment-wise loan performance of CBL retail department. Then, as generally most customers contain a minimum amount of credit risk, I have tried to cover how CBL manages this credit risk issue of the customers.

After discussing all the components, I have established some findings and challenges they face while managing the credit risk of their customers. In findings I found out problems like rigid credit assessment & risk grading process, Inefficient Third Party agent (CPV agents), Inefficient data management and many others that affect the bank's credit risk management.

Finally, I have made some recommendations based on the findings and challenges of the report. If The City Bank Limited can convert its challenges into opportunity then they can easily and efficiently manage their credit risk.

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Organizational overview

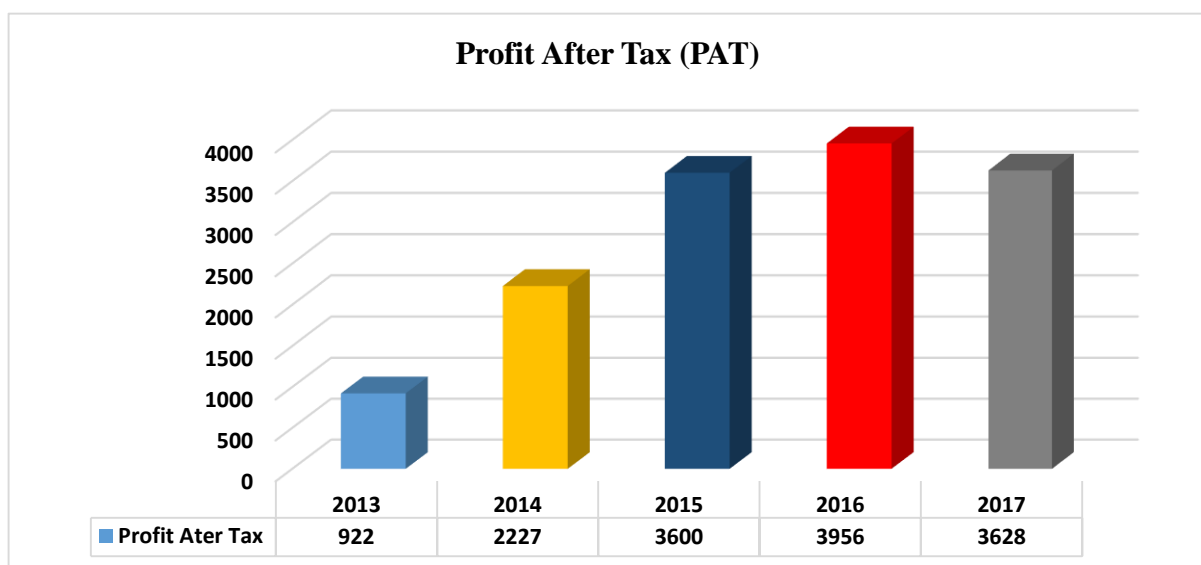
The City Bank is one of the oldest private commercial banks in Bangladesh established in 1983. It has been in a leading position since the very inception of the private banking industry in Bangladesh. Though the major focus on Retail & Corporate, and a growing focus on SME, CBL is one of the few banks which has a diversified product category under conventional as well as Islamic Banking. Besides, they have scope for students to be a part of their organization.



Credit Rating- World-renowned credit rating agency, Moody's has awarded The City Bank Limited as **Ba3** for the second time. While, Bangladesh's credit rating agency, CRAB (Credit Rating Agency Bangladesh) has rated as **AA2** rated bank in Bangladesh. CBL is the pioneer in credit cards in Bangladesh. Notably their **CityMax Amex card** (Platinum, Gold, Green, and Blue) in both Visa & Master cards are relentlessly adding value to its customers' lifestyles.

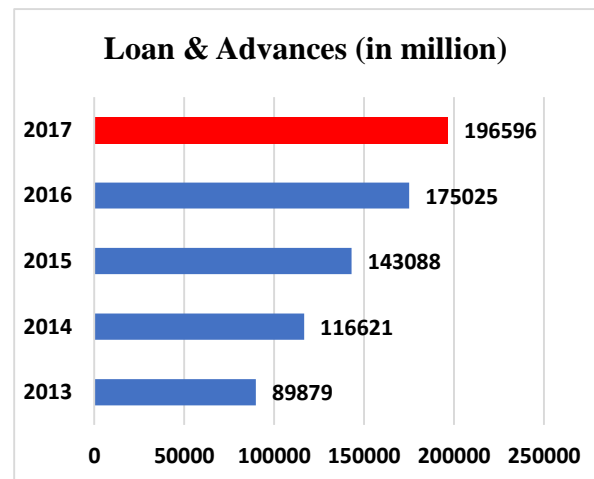
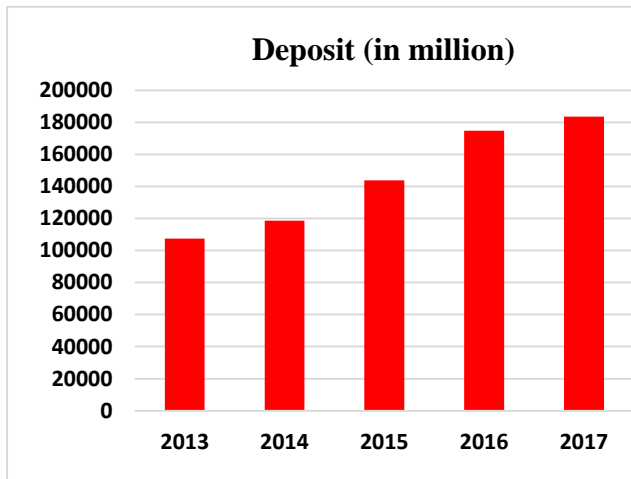
Key Performance Indicators

Profit After Tax (PAT) of The City Bank shows that it had been very consistent for the last five years except for 2016. It stood at BDT 3.628 m in the year 2017. In comparison with previous 2016, it showed a drop of 8.3% over this one year. Due to the unsettling situation in the banking industry regarding the NPL issue, it became very tough to maintain a stable profit for all the banks.



However, CBL's consistent and focused strategies helped them ended up with a satisfactory performance comparing with other commercial banks in Bangladesh. There was a significant amount of risk in 2017 as NPL ratio had gone up. However, CBL's credit management was able to manage their credit portfolio so smoothly, as a result, NPL has dropped in the first quarter in 2018.

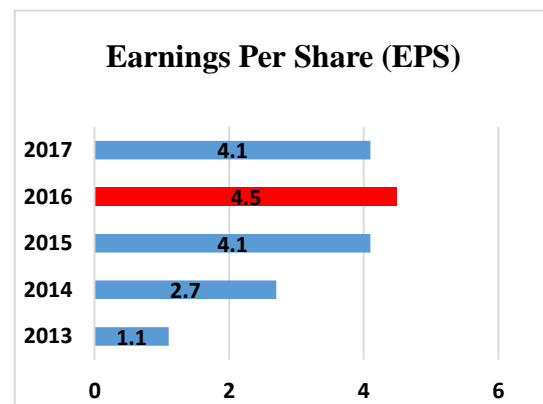
Loans and Advances had seen a decent growth over the last one year. It stood at nearly BDT 200 m in 2017, whereas in the year 2016 it was BDT 175,025 m. There was a growth of nearly



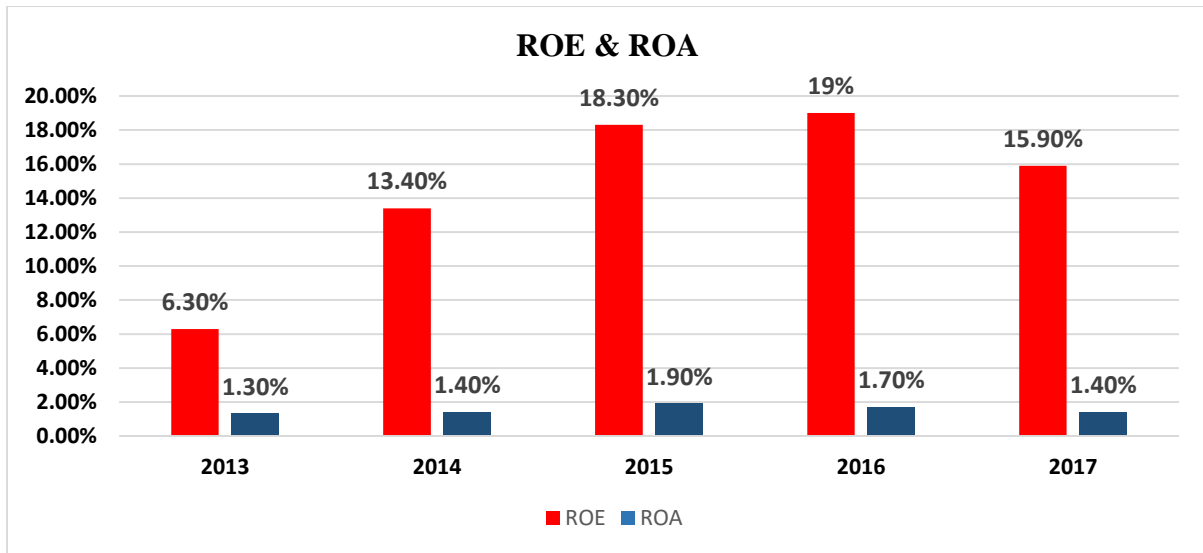
13% over that one year. The growth of Loan is trending higher as previously it had a growth of 22.3% from 2016 to 2017. CBL's continuous diversification in terms of their Loan granting made them very successful in this parameter.

In addition, if we see the Deposit amount, it was at BDT 183,493 in 2017 wherein 2016 it was BDT 174,695. It had a growth of 5% over the one year due to Government's decision of making the interest rate lower. It had affected the growth of the deposit amount and overall the growth of Banking Sector.

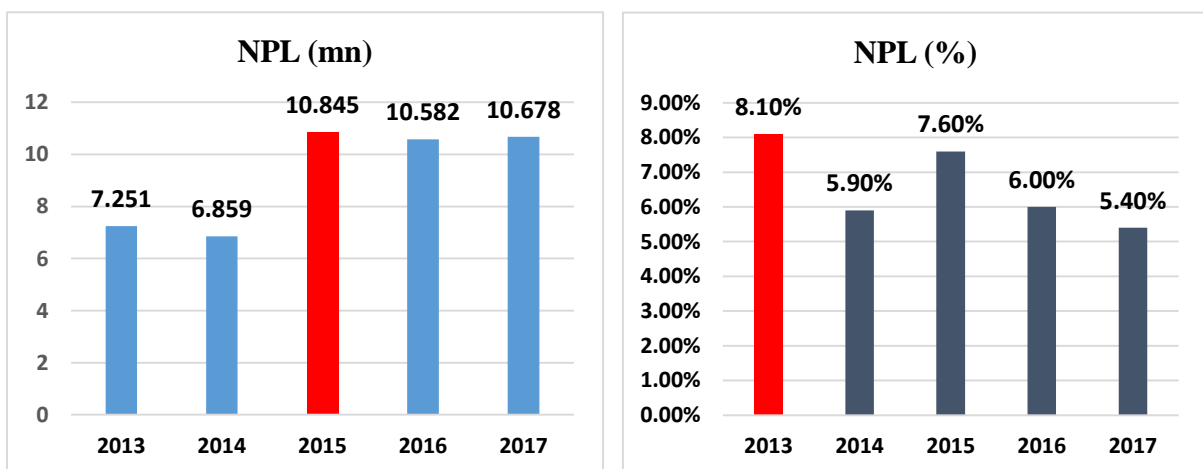
Earnings Per Share (EPS) In the year 2017, earnings per share stood at BDT 4.1, which was BDT 4.5 in the previous year. Due to a drop in profitability and fresh share capital issuance to IFC, the EPS has dropped slightly. But if we see 2013 to 2015, the earning per share gradually increased.



ROA & ROE- Profitability measures ratios include Return on Assets (ROA) and Return on Equity (ROE) of CBL showed a consistent strong position up to 2016 and stood at 1.70% and 19% respectively due to growth in advances and gain indices. In 2017, ROA and ROE stood at 1.40% and 15.90%, respectively. If we see from 2013 to 2015, the ROE & ROA were in increasing trend and in 2015 the ROA was the highest among those years that is 1.90%. So we can say that the bank performed very steadily since 2013 to 2016.



Non-Performing Loans (NPL) ratio for private commercial banks is the lowest among the different bank groups, rising modestly from 5.8% to 6% with provisions remaining adequate, as on September 2017. In September 2017, total NPLs stood at BDT 803.07 billion or 10.67% of the total loan amount, according to statistics of Bangladesh Bank. Here the Non-Performing Loan of CBL in 2017 was 10.678 million that is 5.40% of the total loan amount. It is evidently a better performance compare to market NPL.



If we compare 2017 with the previous four years we can see that city bank performing very well to collect their loan amount from the customer. That's why the non-performing loan was 5.40% in 2017.

Vision

The financial supermarket with a winning culture offering enjoyable experiences

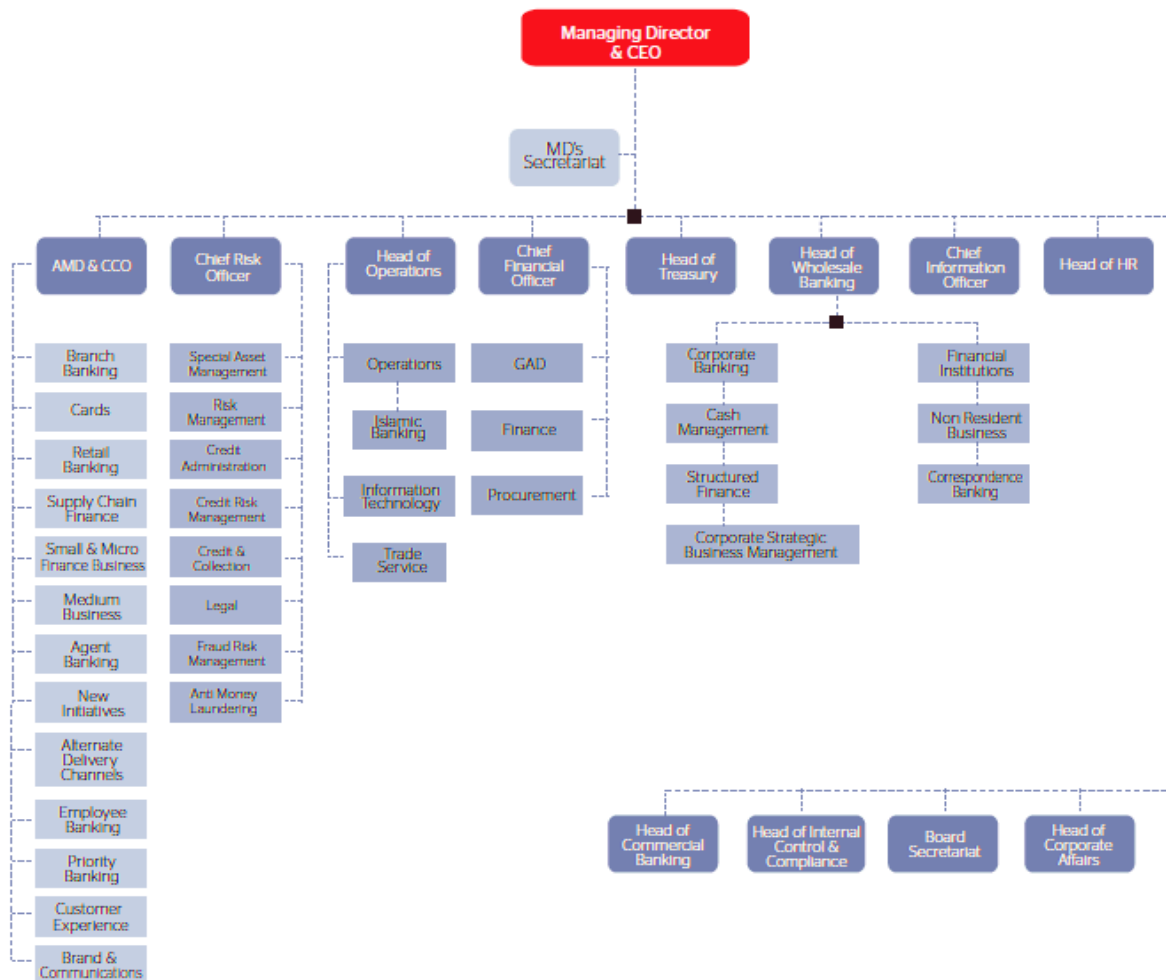
Mission

- ❖ Offer a wide array of products and services that differentiate and excite all customer segments
- ❖ Be the “Employer of choice” by offering an environment where people excel and leadership are created
- ❖ Continuously challenge processes and platforms to enhance effectiveness and efficiency
- ❖ Promote innovation and automation with a view to guaranteeing and enhancing excellence in service Ensure respect for community, good governance, and compliance in everything we do

Values

- ❖ Result Driven
- ❖ Accountable & Transparent
- ❖ Courageous & Respectful
- ❖ Engaged & Inspired
- ❖ Focused on Customer Delight

Organogram



The organogram depicts that the utmost authoritative position starts from the Managing Director (MD) & CEO of the company as like most of the companies. Then comes all the departmental heads, notably Head of Operations, Human Resources, Retail Finance Center (RFC), etc. Under the umbrella of the departmental heads, there are a number of sub-divisions which operate under the guidance of respective departments.

In Branch Banking, Branch Manager is the sole authoritative figure. Under the Chief Risk officer, there are numerous risk management departments, especially Credit Risk management (CRM) department, Credit and Collections (C&C), Fraud Risk Management (FRM) and so on. AMD & CCO covers a wide extent of operations, including Branch Banking, Cards, Retail Banking, Small & Medium Enterprises (SME), Customer services, and other concerns.

Introduction

Rational

Finance is globally one of the intriguing fields of study. Financial operations help an organization to create, move and use the money. Money is made by marketing and sales team, while the whole money flow is managed by the Finance team. As I have completed my Bachelors in Finance, I always wanted to work in any financial institution where I can utilize my knowledge to its fullest.

Financial institutions play a very vital role in order to stabilize the economy of a country. Since the very advent of Bangladesh, the financial institutions are relentlessly contributing to its economy. The City Bank Limited is also working as one of the successful intermediaries in the country, which gives its customers the utmost security in terms of their financial transactions. However, recently all the commercial banks are facing a lot of issues regarding Non-performing Loans (NPL) or customers' default rate. Thus it actually intrigued me to explore the real scenario of a bank's risk management measures against this credit default issue.

Through this report, anyone can have an evident idea of a commercial bank's measures or activities to deal with credit risk issue. Besides, I have further desire to publish this report by generalizing it for all commercial banks in Bangladesh, not focusing merely on City Bank itself. Here in this report one will, first of all, get an overall idea about the City Bank Limited, then will get the overview of the bank's loan product and after that how the city bank manages the risk of the customers of being default. Lastly, the findings and recommendations that I come up with adding more value to this report.

Background

Internship always provides a new horizon for a student as it gives them the opportunity to come closer to the real world by exploring an organization and knowing its culture and operations. While doing this report on "**Credit Risk Management of The City Bank Limited**", my academic knowledge, supervisor's directions, and the constant support of my faculty supervisor helped me to finish the report in a structured and effective manner.

Objective

The primary objective of this report is to successfully accomplish my four-year Bachelor's degree at BRAC University. Through this report, I have tried to discover how much CBL is

affected by the rising credit risk issue among the banks and how credit risk issues are being dealt by The City Bank Limited.

Besides the principal objective of my degree completion, I have other purposes for working on this topic. These include-

- ❖ The overall performance of the city bank analyzing the financial indicators.
- ❖ To explore what credit facilities are provided by CBL
- ❖ To observe and learn the Credit process along with the Risk Management process
- ❖ To explore the commercial bank's working environment
- ❖ To get a broader exposure to real-life working activities

Literature review

Non-Performing Loan (NPL) refers when a customer does not make the scheduled payments including interest and repayment amount after taking a loan from the bank. It is considered as default or close to default. This can be put in a time frame, like if a customer is unable to pay for 90 days, then the customer will be considered as a defaulter. In other words, if the repayment does not make for 90 days or three months at a stretch, then it would be counted as Non-Performing Loans.

Financial institutions play a very dominant role in the economic development of a country. The main purpose of these institutions is to facilitate the process between the surplus unit, which is depositors mainly, and the deficit unit, borrowers. Through the process, financial institutions give assurance to both of the groups to manage their money smoothly. Commercial banks' contribution in Bangladesh economy is unimaginable. Since the very inception of this country, it has been suffering from various social, political & economic unrest. Along with other improvements needed for this country, economic development in of the prime ones which can be resolved many of the country's major problems.

The smooth and efficient flow of saving & investment process is the key factor for the economic development of a country. Bangladesh is one of the fastest developing countries in the world, however its financial market is yet to develop a lot. It has been heavily dependent on the commercial banks to mobilize the depositors side and capital provider. Hence it matters significantly for a well-functioning economy. However, its recent issue with Non-performing Loans has really captured everyone's attention.

As per Bangladesh Bank's study (2018), from 2012 to 2016, the average ratio of NPLs compare to the total were around 27.10 %. It was 4.9 %, 6.5 %, and 22.56 % respectively for private commercial banks, foreign banks, and state-owned banks. This rising NPL issue has to be taken care of immediately by both commercial and state-owned banks. However, many of our responsible figures do not even bother much with such alarming issue

Saleh Uddin Ahmed, ex-Bangladesh Bank Governor (Dhaka Tribune, December, 2017), financial institutions have to take legal actions against the clients who become the default. As days go by, this rate of NPL is rising gradually, however, there are no such appropriate measures from the Government.

According to a paper titled “**A Review of the Activities and Performance of the Banking Sector of Bangladesh**”, in between 2014 to 2018, the NPL ratio has been near above the 10% mark and it is even higher than the NPL ratio of India and Nepal. **The International Chamber of Commerce-Bangladesh (ICCB)** has been very concern regarding this NPL issue and they termed as a curse for the sustainable growth and they are urging the Government to do more about it to combat such menace.

According to **Bangladesh Bank (2017)** from the latest reports, 10.1% Year on Year (YoY) money supply in Bangladesh has increased in January, 2018. The total reserve of Foreign Exchange in Bangladesh is around 31.4 bn in February, 2018. In December, 2017, many of the Foreign Exchange Reserves equaled around 7.5 months of import. Lastly, domestic credit reached 114.8 bn USD in 2018, compared to prior year it has seen a growth of 14.3%.

However, according to **Rahman (March 29, 2018)**, the private banks would struggle to register growth in profits this year too given their ongoing liquidity crunch.

Lastly, Non-Performing Loans is a great matter of concern in recent years. Though very few steps are taken by the concerns of this issue. As of yet, only a limited number of actions have been taken against the defaulters, risk management improvements and after all, strengthen overall bank management. There are many more measures can be implemented to tackle this industry’s daunting problems of poor risk management and corruption in the root. Bangladesh was on the verge of becoming a middle-income country, now this issue has drawn everyone’s attention and this could impede the growth of this country’s economy.

Activities Undertaken

Ever since I joined **The City Bank Limited (CBL)**, I was very fortunate enough to get the chance to work with people from diverse departments where a number of banking activities were done. Hence I got the chance to learn from various people in different departments.

Interest Rate Re-pricing Project- I was recruited as an intern under the Credit & Collection division for undertaking a project called “**Interest Rate Re-pricing Project**”. Due to the recent interest changes notice from Bangladesh Bank, all the banks are needed to adjust their loan interest as per the new one. According to the new interest rate, it is 12.5%, whereas previously it was 11.5%. Thus like all other banks, CBL had to adjust their new interest as per Bangladesh Bank’s decree.

As per BEFTA (Bangladesh Electronic Fund Transfer Authority), Banks have to make the changes to EMIs (Equal Monthly Installments) of their customers. There is a form called EFTN form, which was sent to individual customers of the CBL, and I myself along with other five interns had to edit the form as per new adjusted EMI. Where we had to check the full form carefully which contained three account numbers and a bank routing number.

I had to check if there were any mistake or not. Plus I had to maintain a whole master file of the project where around 13,000 customers’ data were there. CBL through its CPV (Contact Point Verification) agents get the forms signed by their customers to make them agree that from now on they will start paying as per new EMI.

After getting all the forms from the agents, we firstly needed to verify the signature of the customers over the phone. After that, I needed to update the status of the file in the master excel file. Then had to make a comprehensive mail, including all the receipt forms’ number, for the purpose of sending it to the Central vault where all the files of the customers are kept.

There I had to send the requisition mail for the done files, where there was an old EFTN form was per the previous interest rate. And I had to make the changes of the old EFTN form with the new one. Then update again finally in the excel file.

Through this whole task, I actually got to know a number of banking terms which are used frequently in banks. Like CASA (Current & Savings) account, Banks Routing number, which is written on the cheques of the banks.

Other notable takeaways that I got from this whole process are-

Precision- Throughout the whole project period I had to be very careful with every steps as I had to maintain a huge excel file. I had to crosscheck both the CBL account number along with the other banks' number with utmost attention. Because if I had made any sort of single mistake in this process this would have caused a huge problem as a whole.

Efficiency- As I had to undertake nearly 100 forms every day, thus I had to be very efficient to update all the customers' status on a regular basis. I had to take a lot of pressure to deal with such a huge number of forms.

Other notable activities include-

Documentation- While working under **Asset operations** (Asset ops.) department where I had learned about whole Documentation process. There I got myself familiar with all the required and charged documents that both customers and bank have to provide as a requirement of a bank loan execution.

Every loan file has some charged documents where Bangladesh Bank through all the banks takes the money amount from the customers. The charged documents vary based on loan types.

These include-

- ❖ Letter of Guarantee (LOG)
- ❖ Demand Promissory Note (DP Note)
- ❖ Irrevocable power of attorney
- ❖ Letter of Undertaking
- ❖ General Loan Agreement

Company Categorization- I have learned how company categorization is being done in a bank. Potential loan applicants, organization, that ask for a loan to finance their business, are categorized in different segments (e.g. category A, B, C). First 2-3 weeks of my internship I had observed how my supervisor did the categorization of any institution. Generally based on feasibility in terms of the current market and the future prospect of the business and also based on financial stability, the organizations were categorized. Finally, I was given a partial task in the process of doing the whole categorization.

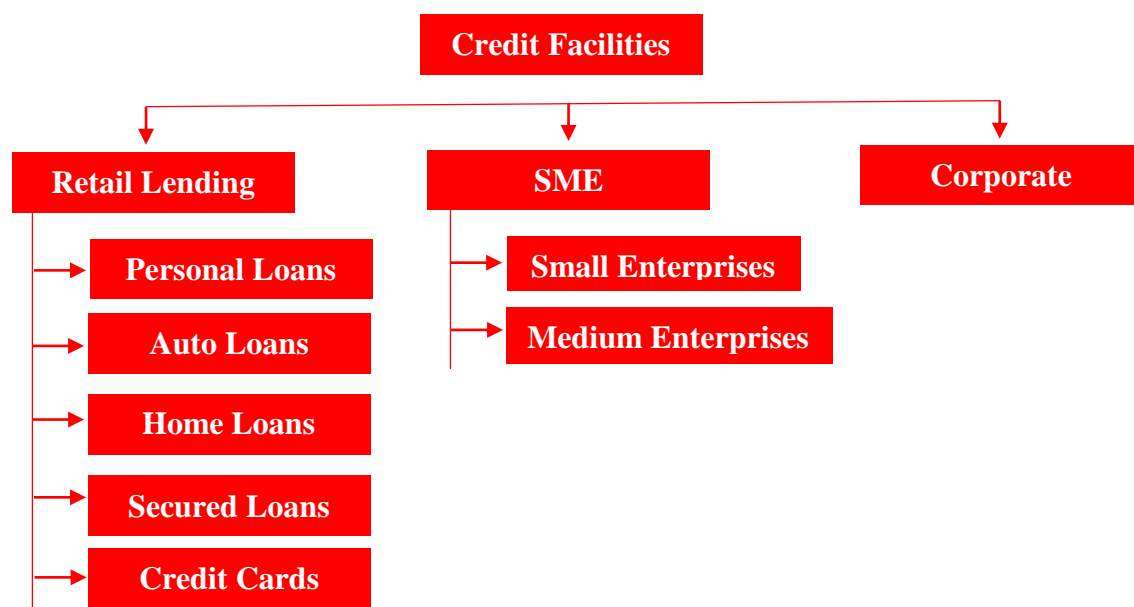
Credit Risk Overview

Credit risk refers to the potential loss of loan repayment amount from a borrower of a bank. Every customer takes loan upon a set of agreed terms which they have to perform throughout the whole time period of a loan. However, when a borrower is either unable or unwilling to perform his/her obligations as per agreed upon terms and conditions, then the borrower is considered as defaulter. Credit risk can potentially have multiple outcomes of a customer's while performing his obligations. The possible outcomes range from full payment of EMIs throughout the tenor, all the way to complete absence (total loss on the loan) or even partial absence of EMIs. Besides, the payments might be made in an untimely manner or in timely manner but not in full amount.

Credit Facilities

The City Bank Limited (CBL) offers a number of credit facilities which address the need of small to large-scale borrowers. Small-scale customers include retail loan where mostly the demand of individuals are met while the large-scale covers corporates and Small & Medium Enterprise (SME) credits.

These loans are set in a manner that meets everyone's purpose of taking a loan from banks. CBL loan facilities are available in the following categories-



CBL's loan arrangements for their customers are broadly divided into 3 categories. Firstly under the governance of the Retail Finance Unit (RFC), four types of schemes are being provided.

Retail Credit

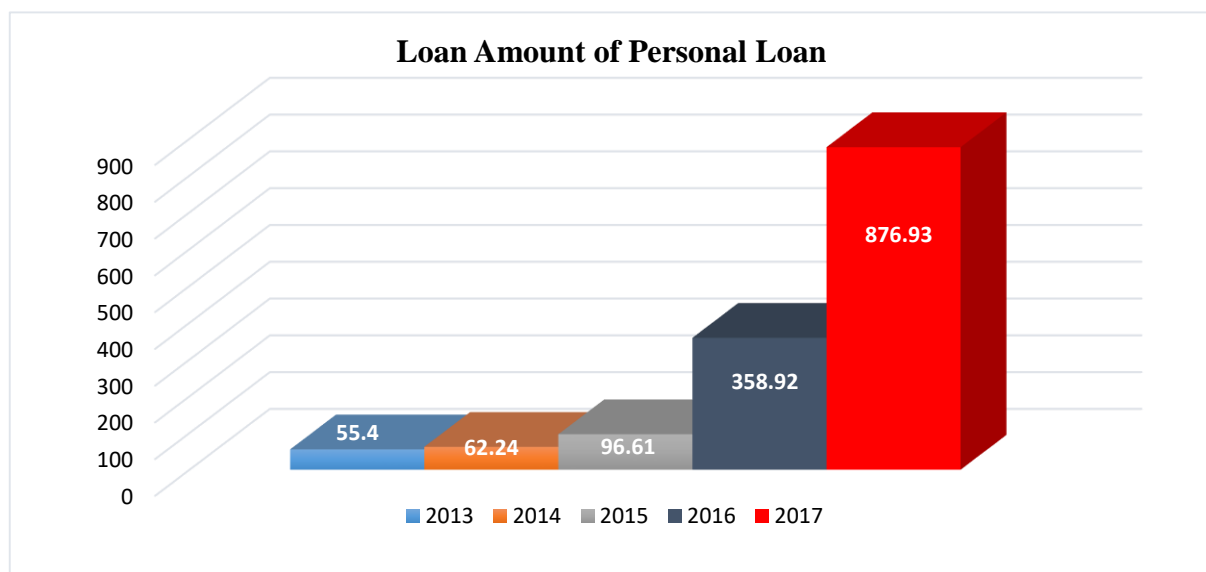
Over the last few years, there has been a major change in the mindset of our consumers. Retail Credit once considered unreachable, is today a means of fulfilling the growing aspirations of Bangladeshi middle class, especially the growing population of the 25-44 age groups. The rise in income levels, together with a fall in interest rates and growing competition has increased the affordability of loans for borrowers. Retail Banking it has now- at a very rapid pace – become the major revenue line for most of the top banks in the country. At City Bank, we offer the best-in-class services, innovative lending products and financial solutions for customers to meet their personal financial requirement. To meet the personal needs of any creditworthy individuals, we have launched City Solution in 2008, any purpose unsecured personal loan.

Personal Loan

Personal Loan (PL) basically covers the demand of individuals’ specific needs. The loan amount for PL is ranging from BDT 50 thousand to BDT 20 lac. The most frequent purpose of taking this loan is house renovation and marriage. However, The City Bank Limited (CBL) promises to provide their personal loan service on any occasion or the requirements of their customers.

They have some eligibility criteria to whom they provide these loan facilities. CBL mainly provide these to salaried executives, business person & self-employed individuals. These individuals can ask for a loan of 12 to 60 months tenure with a very competitive interest rate.

Here are the past five-year disbursement’s chart under personal loan category along with the amount of Non-performing loans-



If we see last five years loan disbursement amount in personal loan, we can see it has fluctuated over the years. From 2013 to 2016, it had been in a gradually increasing trend while we can see a dramatic increase in the personal loan in the year 2017. The reason being, as the lifestyle of the customers, have changed and people are more prone to taking loans for personal purpose, e.g. marriage, home renovation, etc. Plus the loan interest rate was very favorable, 10.5% for salaried and 11.5% for businessmen. Thus the loan amount increased in that manner.

Now if we see the Non-Performing Loan (NPL) amount, it was really high in the year 2014. Then from 2015 on, it came down drastically where the loan amount had increased at the same

Year	Loan Amount (Cr)	NPL (%)	NPL Amount (Cr)
2013	55.4	8.6%	4.76
2014	62.24	32.05	19.9479
2015	96.61	11.47	11.0812
2016	358.92	1.62	5.8145
2017	876.92	0.29	2.54307

time. After that, since 2016 to till date CBL has been taking corrective measures to keep their NPL under control. And it can be evidently seen in their financial indicators. Their NPL rate in the last 3 years have been in declining trend and it reached below 1% in recent years. It is certainly a healthy sign in terms of generating more revenue.

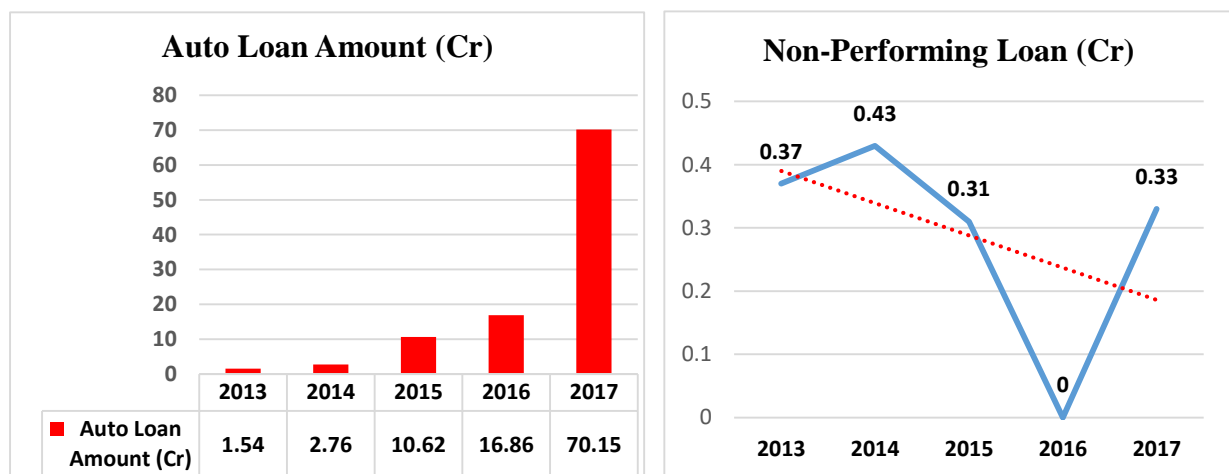
Auto Loan

At current socio-economical circumstance of the country, the requirement of the personal car (Automobile) became a necessity rather than luxury towards all upper and middle-class individuals of the country. The regulatory body for financial institutions (Bangladesh Bank) also realize the basic demand of the individuals and provided a specific guidance for the bank to lend against individuals private vehicles. Bangladesh Bank is also updating the guideline on time to time to meet the individual's demand and government policy.

At The City Bank, we offer best-in-class services and innovative lending products and financial solutions for customers to meet their personal financial requirement. Consumer banking product's business is now at a very rapid pace, and become one of the major revenue lines for most of the top banks in the country. To meet the personal needs of any creditworthy individuals, The City bank offers several personal financial solutions.

The City Bank launched Auto Loan product under the name of “City Drive” in the year 2008. In the year 2014, the board of the bank decided to change all the name of its consumer deposit and loan products and issued board resolution accordingly. Board changed the name of this particular product from “City Drive” to “Auto Loan”, the main motive to change the products name is to make the product name more convenient to its customer.

Auto Loans are given up to BDT 40 lac. They do finance 50% for new car and recondition cars. Besides, if anyone wants to have the loan using securities, in that case, CBL finances 100% for the stipulated tenure of 12 to 60 months.



Now, if we see CBL’s last 5 years’ Auto loan disbursement and comparing it to the amount of NPL they have, it is pretty obvious that their Auto Loan has been increased since 2014, and in the year 2017 the amount jumped to nearly 71 crore, which is the highest in number in the last five years. In this year CBL’s additional sale force had been put in action to increase the Auto Loan amount, thus it increased by 50 crores compared to the prior year which was 2016.

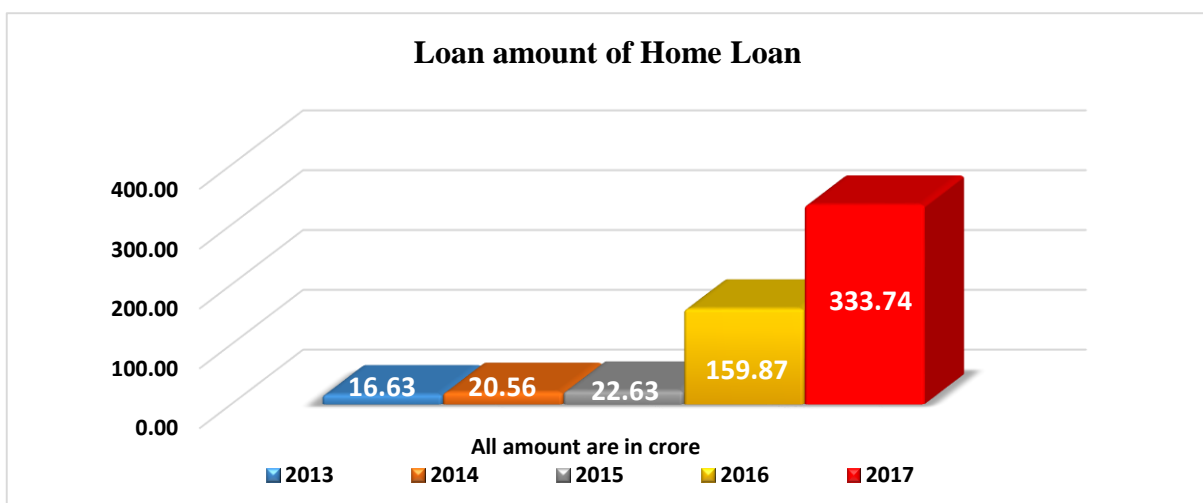
Moreover, if we see the trend line of NPL, we can see in 2014 it was the highest in the last five years, and it has been in a downward trend over the years since 2014. So far first quarter in 2018, it shows Zero NPL, and it is expected to go in such manner as they are taking a number of measures to tackle this rising condition among all the banks in Bangladesh.

Home Loan

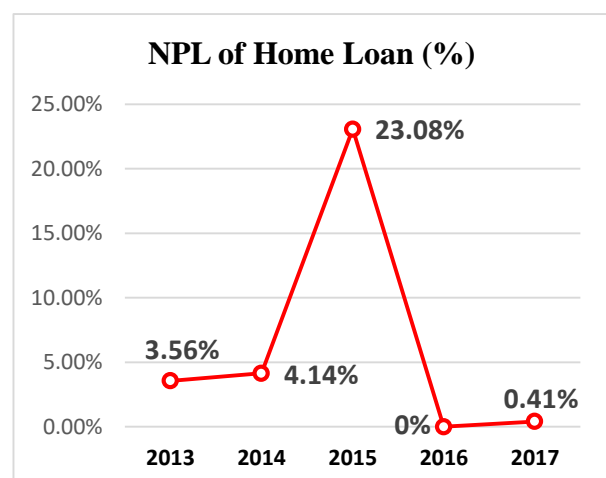
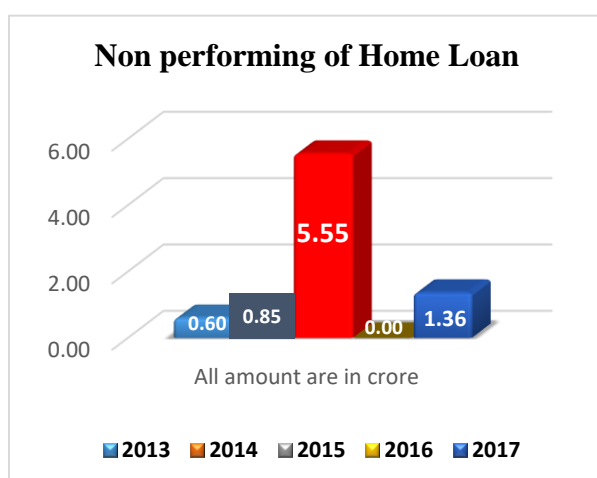
When an individual has a dream to own his own house then the home loan (HL) helps those individuals to make its dream come true. The loan amount for an auto loan is ranging from BDT 5 lac to BDT 1.2 crore. The most frequent purpose of taking this loan is to build a house.

However, The City Bank Limited (CBL) promises to provide their home loan service on any occasion or the requirements of their customers.

They have some eligibility criteria to whom they provide these loan facilities. CBL mainly provide these to salaried executives, business person & professional individuals. These individuals can ask for a loan of 1 year to 25 years tenure with a very competitive interest rate. In the home loan, maximum 5 phase's disbursement is allowed for the individuals and individuals can take 70% loan of his/her property value. This loan settlement process is very easy and there is no hidden cost applied to the loan holder. The loan process is very tiny that is 1% of loan amount but there is no processing fee for takeover and enhancement facilities.



If we see last five years loan disbursement amount in a home loan, we can see it has fluctuated over the years. From 2013 to 2015, it had been in a gradually increasing trend while we can see a dramatic increase in the personal loan in the year 2016 and 2017. The reason being that the customer was very interested to build their own house and the loan interest rate is very



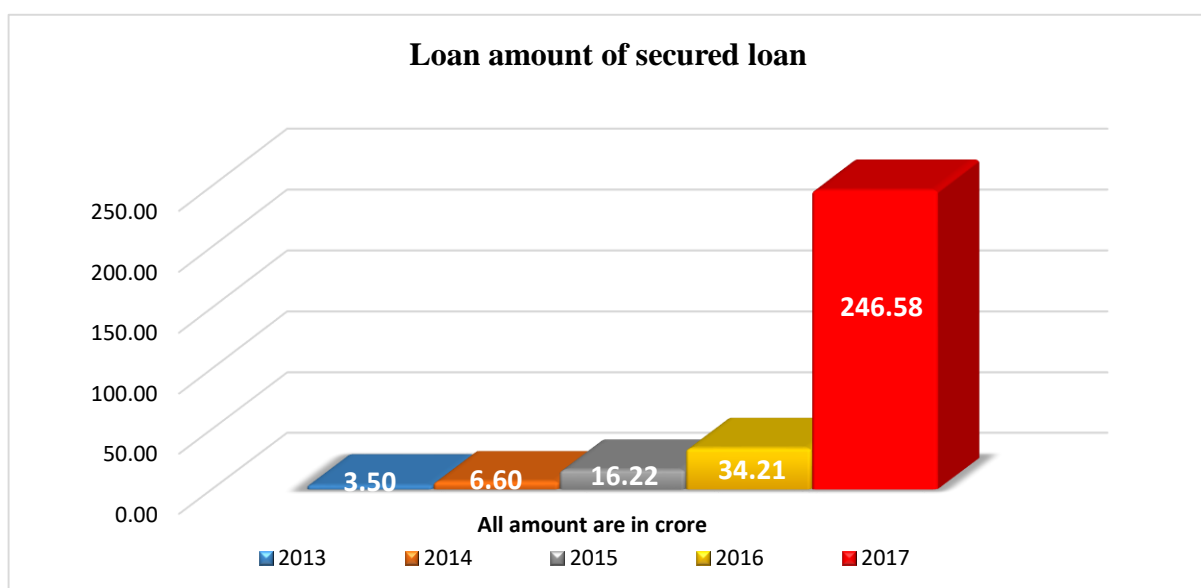
favorable, thus the amount increased in that manner. Besides, 2017 shows the same scenario of reaching the loan amount beyond higher than the previous year.

Now if we see the Non-performing (NPL) loan amount of home loan, in 2015 and the non-performing loan amount was huge that is 23.08% and that is more than the others years. But in the next years 2016, the non-performing loan of the home loan was zero. Hare bank takes corrective actions based on their previous year. And 2017 we can see that the non-performing loan is 3.56% of the total loan in home loan.

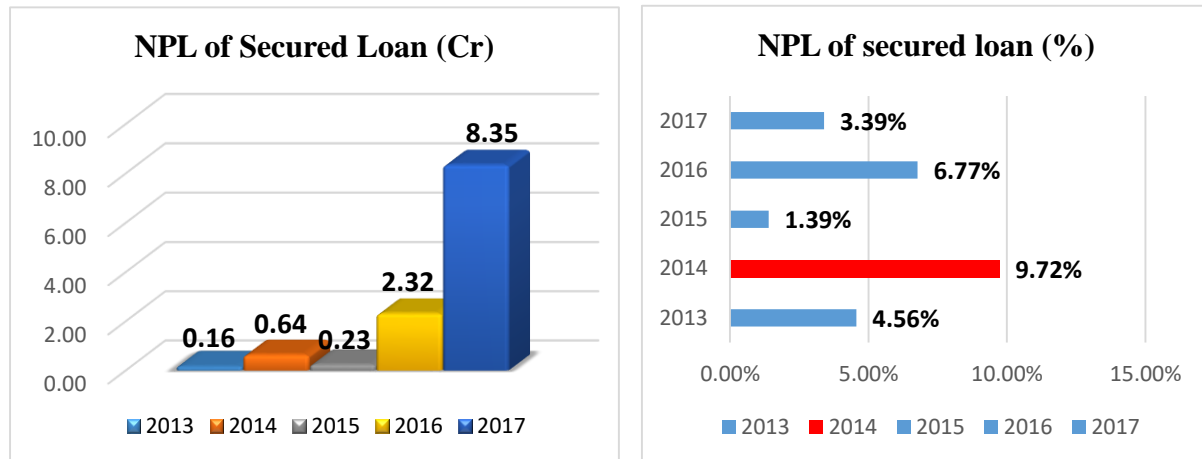
Secured Loan

When an individual has a dream to own his own house then the home loan (HL) helps those individuals to make its dream come true. The loan amount for an auto loan is ranging from BDT 5 lac to BDT 1.2 crore. The most frequent purpose of taking this loan is to build a house. However, The City Bank Limited (CBL) promises to provide their home loan service on any occasion or the requirements of their customers.

They have some eligibility criteria to whom they provide these loan facilities. CBL mainly provide these to salaried executives, business person & professional individuals. These individuals can ask for a loan of 1 year to 25 years tenure with a very competitive interest rate. In the home loan, maximum 5 phase's disbursement is allowed for the individuals and individuals can take 70% loan of his/her property value. This loan settlement process is very easy and there is no hidden cost applied to the loan holder. The loan process is very tiny that is 1% of loan amount but there is no processing fee for takeover and enhancement facilities.



If we see last five years loan disbursement amount in secured loan, we can see it has fluctuated over the years. From 2013 to 2016, it had been in a gradually increasing trend while we can see a dramatic increase in the personal loan in the year 2017. The reason is that the customer



was very interested to take a secured loan because the process of secured loan is very easy and the loan interest rate is very favorable, thus the amount increased in that manner.

Now if we see the Non-performing (NPL) loan amount of secured loan, in 2014 and the non-performing loan amount was huge that is 9.72% and that is more than the others years. But in the next years 2015, the non-performing loan of the home loan was 1.39%. Hare bank takes corrective actions based on their previous year. And in 2016 we can see that the non-performing loan was 6.77% that increases from 2015 and in 2017 the non-performing loan was 3.39% of the total loan in a secured loan.

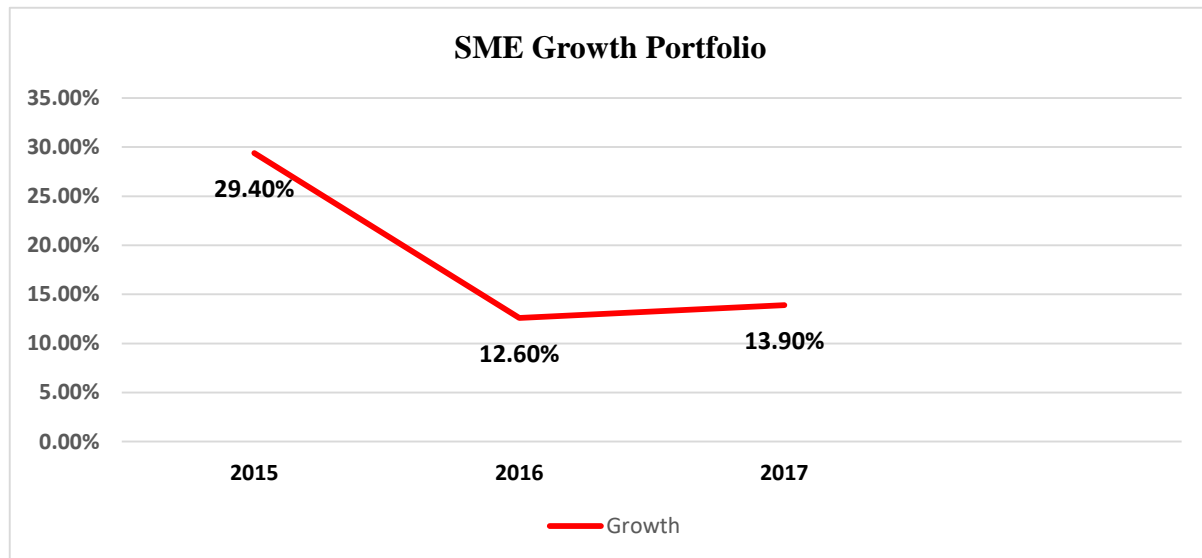
Corporate

As at December 31, 2017, City Bank's Corporate Banking loans and advances stood at over BDT 117,059 million, which is one of the largest in the banking sector of Bangladesh. Corporate Banking deposits stood at over BDT 32,698 million. The Bank also enjoys USD 135 m funded credit lines from development financiers like IFC, ADB, FMO, and GCPF. In addition, the division executed a trade of USD 2,664 million in 2017, up by 37.9% over the previous year.

Small and Medium Enterprise (SME)

City Bank started its operations as the first private commercial bank of Bangladesh. Realizing the significant opportunity that existed in opening up the formal banking sector to SMEs, a segment that was earlier considered to be un-creditworthy, City Bank embarked on the journey

to bridge this divide and catalyze the growth and transformation of the sector. Progressively, under the landmark “Financial Sector Reform Project”, the Bank also restructured the department to ensure more focus on the SME sector. According to the guidance of and directives from the regulator, the Bank has been successfully achieving indicative disbursement targets, which was set initially in the year 2010.



In this chart showing the last three years SME portfolio growth rate. Here in 2015 the SME loan amount was 29.40% of a total loan disbursement amount of city bank limited. Then this rate decreases to 12.60%. If we compare 2017 and 2016 then we can see that the SME loan amount is increased in 2017 than in 2016.

Credit Risk Management (CRM)

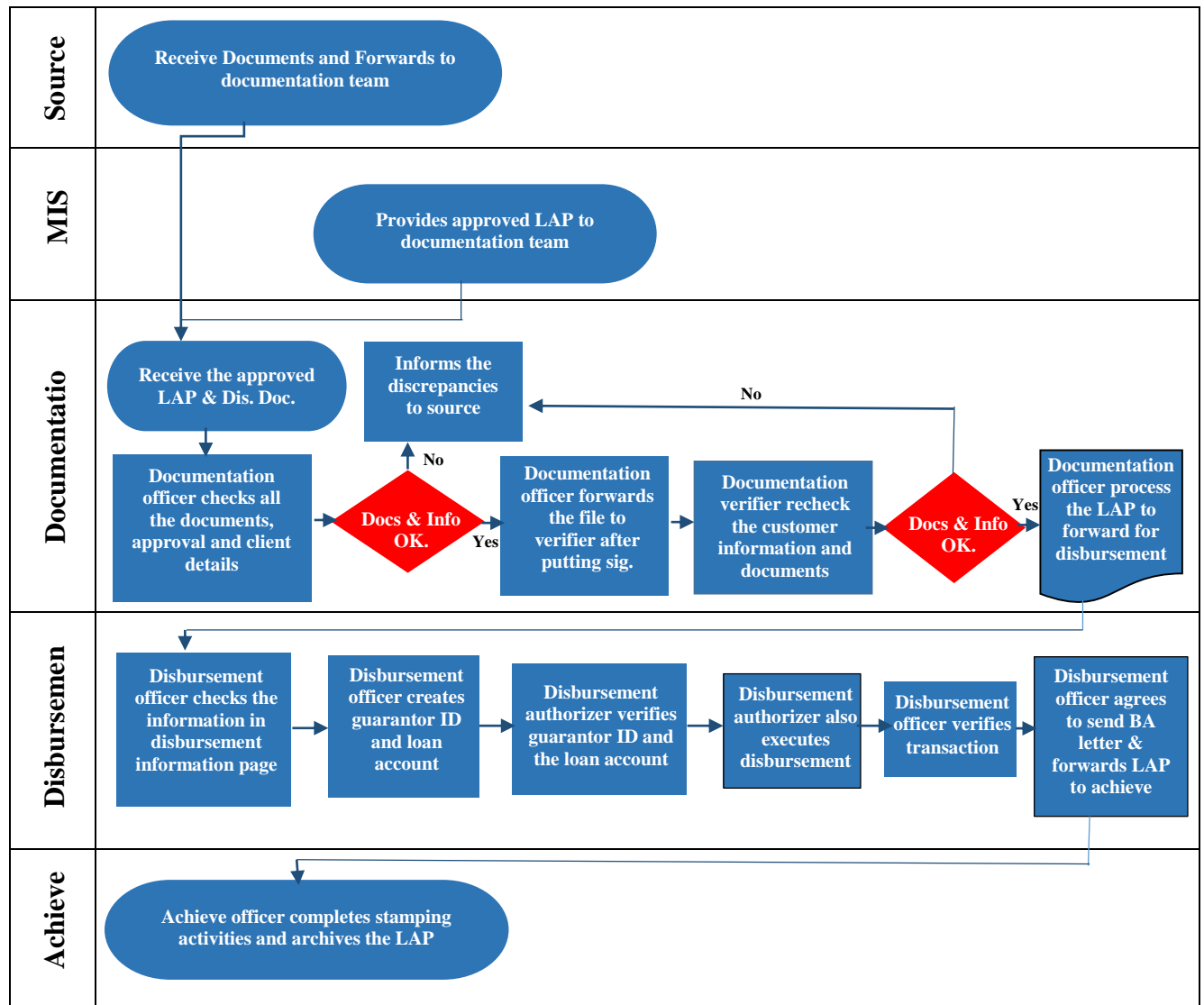
Every bank has a very strong team to manage the credit risk. The main purpose of the credit risk management is to maximize the risk-adjusted rate of return by maintaining the credit risk exposure. It is very important for every bank to maintain credit risk because if the bank has higher credit risk then the cost of capital of the bank will increase and the earning of the bank will decrease. That is not a good sign for any bank.

On the other hand, if the bank maintains the credit risk properly then the cost of capital will be the interest expense of the deposits. So the bank will generate more profit and that is the good sign for every bank. In an efficient market, a higher level of borrowing cost arises because of a higher level of credit risk.

All the credit facilities’ execution process are more or less same. The private commercial banks have to follow Bangladesh Bank’s guideline of processing a loan application. Hence, I have

considered the most attractive product of The City Bank Limited, **Personal Loan (PL)**, to explore the whole credit process and the risk management steps that are taken by CBL.

Personal Loan- Documentation & Disbursement Process



N.B. LAP- Loan Application Pack
BA Letter- Banking Arrangement Letter

Possible Risks in the Personal Loan Application & Mitigation Process-

Channel Risk- The sales channel consists of branches and direct sales team. Direct Marketing team contributes to 40% of the sales while branch staff contributes to the rest 60%. It is to be mentioned here that all direct sales force is directly employed and there is no outsourced staff for sales and channel risk is relatively low here. However, the risk consists of a gap in product knowledge and customer identification for the front lines, which may result in selling products

to the wrong customer segment. In the asset portfolio, more than 67% of the portfolio is being contributed by Personal Loan (PL).

Fraud Risk- There is an inherent fraud risk in any retail asset business. The most common fraud risks are-

Transaction Fraud- For asset products, transaction fraud exposure may arise from the made-up bank account transactions to get the loan with fraud intention. **Underwriters** are responsible in CBL for detecting the transaction pattern, authenticity of the banking transaction etc.

Application Fraud- There is always the possibility of application fraud by way of producing forged documents. The applicant's identity is confirmed by way of scrutiny of identification and other documentation. A **Contact Point Verification (CPV)** agency is in place to verify the applicant's residence, office, and contact phone numbers. Considering the current market practices and operational constraints, it is not feasible to validate the authenticity of all documentation. However, CBL considers validating the bank statement (the most important and commonly provided income document), Salary certificate, Trade License and TIN (Tax Identification Number), rental deed etc. through CPV agent.

KYC & Contact point Verification (CPV) requirements

Personal details of an applicant including present and employment/business address along with all contact numbers will be verified by credit verification team before an approval is accorded. After the verification, the concerned person(s) will submit a report on their findings in the prescribed form.

Maintenance of Documents & Securities

The applications and other documents related to asset products are held in safe custody by **Credit and Collections (C&C) Operations Unit**. All these documents will go under a single loan file per customer. The physical securities and the security documents are held elsewhere inside fireproof cabinets with C&C operation's custody. The dual key system for secure placement and retrieval is managed by C&C.

Internal Audit

CBL has a segregated **Internal Audit Department** who is responsible for performing audits of all departments. Audits are carried out on a regular or periodically as agreed by the Management to assess various risks and possible weaknesses and to ensure compliance with regulatory guidelines, internal procedures, and Lending Guidelines and Bangladesh Bank requirements.

Credit Principles

CBL believes credit policies and procedures can never sufficiently capture all the complexities of personal loans. Therefore, the following credit principles are the ultimate reference points for all City Bank staff making lending decisions about personal loans-

- ❖ Assess the customer's character for integrity and willingness to repay
- ❖ Only lend to the customer who belongs to a steady income group
- ❖ Only lend to the staff of the reputed companies having an unquestionable business track record
- ❖ Only lend to the staff of such companies, which have professional career advancement platform for its people
- ❖ Assess carefully the relationship between the guarantor and ability to repay
- ❖ Assess carefully the integrity and loan repayment capacity of the guarantor
- ❖ Plan for the possibility of default
- ❖ Use common sense and experience in conjunction with thorough evaluation and credit analysis. Should not base decisions solely on customer's reputation, accepted practice, other lender's risk assessment or the recommendations of other officers
- ❖ Behave ethically in all credit activities
- ❖ Be proactive in identifying, managing and communicating credit risk
- ❖ Be diligent in ensuring that credit exposures and activities comply with the requirement set out in this Product Program

Product Management Parameters-

Terms and conditions	Program
Purpose of the Loan	Personal Loans will be issued for any legitimate personal purpose; Includes House renovation, Interior Decoration, Marriages in the family, Advance rental payments, Trips abroad etc.
Target Customer	<ul style="list-style-type: none"> ❖ Salaried Executives: Any account paid salary individuals ❖ Self-Employed Professionals ❖ Businessperson- minimum ownership is 20% for Partnership business & 10% ❖ Ownership for private & public limited company. ❖ Landlord/Land Lady ❖ Contractual officials: Contractual officials under HR contract of UN ❖ Organizations reputed MNC and foreign NGOs will also be eligible.
Security	<p>Securities Documentation-</p> <ul style="list-style-type: none"> ❖ Letter of introduction from the Employer (Salaried only) ❖ Letter of Assignment of salary and other benefits ❖ One Undated cheque (Total loan amount + Applicable Interest) ❖ Demand Promissory Note (DP Note) ❖ Personal guarantee (where applicable) ❖ Other security Documents (As and when required)
Personal Guarantee	<p><u>For Businessman-</u></p> <p>1 Guarantor Required</p> <ul style="list-style-type: none"> - Residing on Own House, Guarantor can be Businessman or Family Member - Residing on Rented House, Guarantor must be Businessman from the same <p><u>For Salaried / Professional-</u></p> <ul style="list-style-type: none"> ❖ One Personal Guarantee for Salaried / Professional ❖ Family member's guarantee is also acceptable if living in own house/ family owned- Income professional criteria is optional <p><u>The guarantor will not be required-</u></p> <ul style="list-style-type: none"> ❖ CBL staff ❖ A salaried person with a net salary of BDT 300K (direct A/C transfer) ❖ CCEP Customer – as per MOU/ agreement ❖ 100% cash secured loan facility

Repayment Terms, Frequency, and Tenor-

CBL offers monthly installment facility to repay the loan amount along with interest to its customers. There is a system that linked with customer given account. The System will automatically debit Equal Monthly Instalment (EMI) from customer's operative account or through EFTN. Repayment start date is 30 days after the disbursement. There are some conditions applied prior to disbursement, credit to customer current and savings account with CBL. Plus approval date must not exceed one month at the time of disbursement.

Other Key Features-

Priority Customer- Interest rate, processing fee, partial and early settlement fee and other criteria will be followed as per PPG (Product Program Guideline). CPV will not be done by the third party. Respective priority Center in prescribed CPV format will confirm verification in all cases (as per SLA/ Existing CPV process for priority)

Loan Application Booking on Campaign period- Loan proposal Booking on any Campaign for a particular period/ event with relaxation of PPG parameter e.g. minimum income, Multiplier, interest rate, processing fee etc. or target segment/CCEP etc. which is approved by Head of Business, Branch Banking / DMD and Head of Branch Banking / MD & CEO then loan approval authority will fall under Level-1

Geographies- Loans are offered only to that applicant whose office or residence is located within the branch or SME service Center command area (at cities where we have representation). However, this may be waived for salaried executives (whose salary a/c is with us, but office and residence are located outside cities with our representation).

Other Facilities

Top-up Loan-

A top-up loan is a new loan extended to the existing Limit under same product nature.

When applying for top up, the following criteria will apply-

- ❖ Customer must pay minimum 6 installments of existing loan to avail top-up loan
- ❖ Income assessment, other credit criteria, and required documents will be similar as a new application
- ❖ A processing fee will be charged only over the additional loan amount, not over the existing loan amount.

Quick Loan-

Existing personal Loan availing customer (Took a loan for more than 12 months and consecutively paid last 12 installments with no 30+DPD) are eligible to get Quick Loan up-to-the actual loan amount.

Fraud Management

In the absence of any system support for fraud detection, Credit and Collection (C&C) uses Management Information System (MIS) checking, in-house document checking by approval officers and third-party verification agencies to detect and prevent fraudulent activities.

C&C MIS has MS-Excel/WEB based customer background checking mechanism in place to check if the customer has any previous negative activities and/or poor repayment history with CBL. The background check can also detect multiple unsuccessful applicants who do not yet bank with CBL. After receiving any non-customer's loan application, customer name, father's name, mother's name, company name are matched with the MIS database to check if the customer ever applied for a loan in CBL before. This information is also matched with the C&C MIS Blacklist table to check if the customer has any negative history (i.e. provided false documents, poor repayment in other banks etc.). On the other hand, if the customer has a previous lending history with CBL, then the account is checked for repayment history in his previous loans.

Applicants who provided false information or fake/fraudulent documents are rejected and they are blacklisted on the C&C MIS system. If an existing account holder committed fraud, the account is blacklisted on the system and account closed (if the customer is an existing loan customer then the management decides the course of action).

Lending fraud-related information is collected from the C&C Collection Unit to identify any lapses in the verification/KYC process. A fraud prevention guideline is developed and attached for further reference.

Upon detection of fraud in any A/C, C&C forward the copy of the application to ICC/Fraud Manager for further investigation and necessary action against the fraudulence act. More cautionary measures will be taken and other approved loan files of the same RM/ST staff in whose file fraud detected should be reviewed immediately.

Even after taking such measures by CBL, yet some customers are unable to make their regular payments at times. When a customer fails to make a required payments on time he/she is considered as a delinquent. At that time CBL's Recovery team comes into action and play a significant role to collect money from the write off A/C of customers.

Collection & Recovery

Credit and Collection (C&C) keeps a separate Collections and Recovery team for effective collections & sustainable business growth. A separate approved "Retail Collections Manual" is in place to follow the process at each stage of delinquency. All legal cases are centrally handled and dealt with by the Legal Division as per Policy of the Bank.

Collections-

Collection team supports day by day operational activities of delinquent portfolio management. This process mainly covers ensuring collection from a delinquent portfolio of the retail loan, SMEs PPG based loan through delinquent account allocation to in-house collection executive for customer follow up, supervision of collection executive, the performance of evaluation, giving commission and incentives to collectors, agency target, and performance measurement.

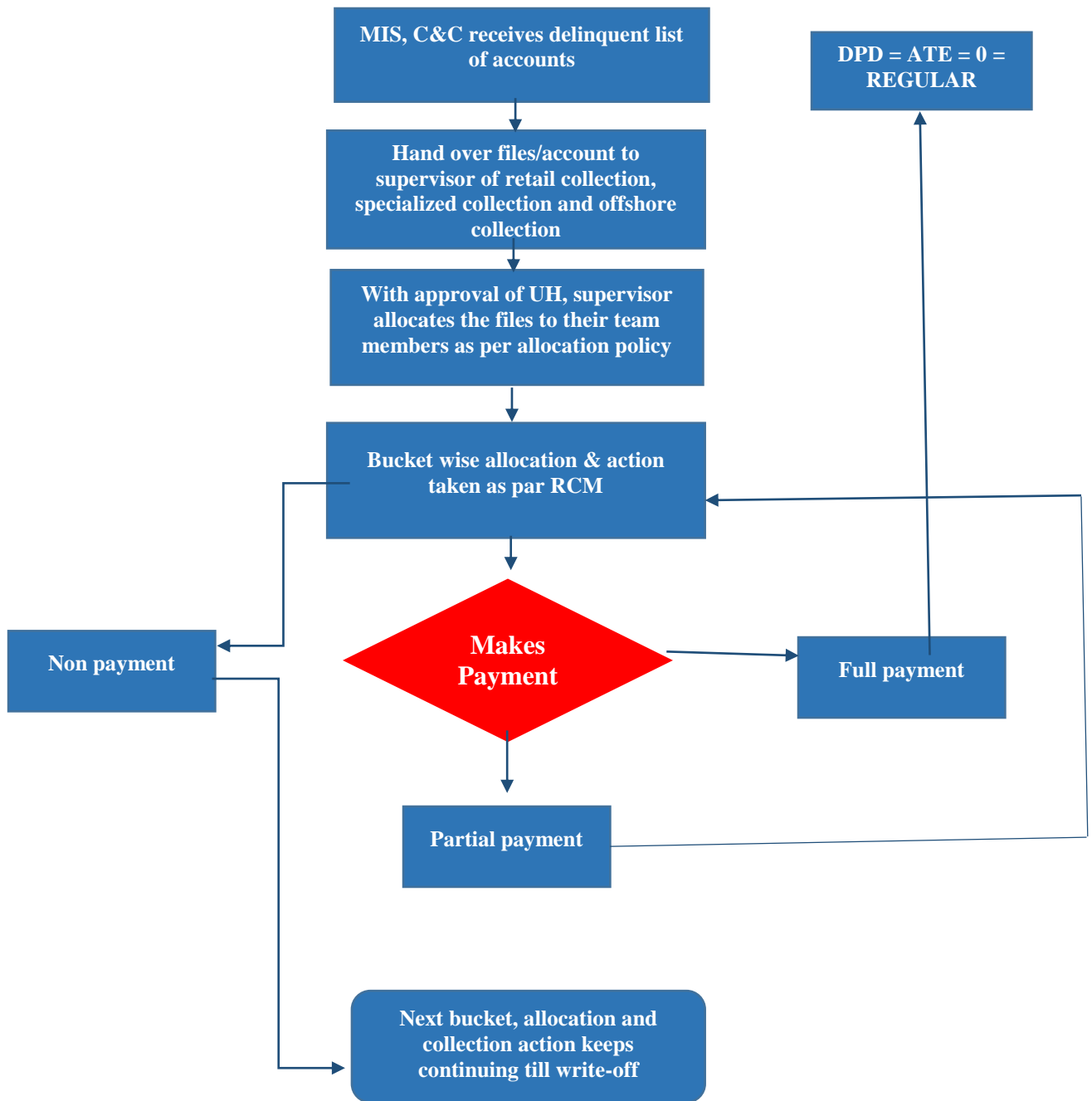
Responsibilities

Approval level- Head of credit & collection has authority to approve the monthly Key Performance Indicator (KPI), commission, waiver for loan settlement, stationeries etc.

Recommended level- Head of the collection recommended to head of credit & collection for approving monthly KPI, commission, stationeries etc. it is also mentionable that the head of the collection has authority as well as go for a waiver in loan account for a full and final settlement based on waiver amount.

Purposed level- There are four unit heads playing a role to lead these units. They purpose to head of collection for mentioning above.

Flowchart of Collection Process-



Collection Action Plan-

N.B. DPD- Days Past Due

DPD	Collection Steps for Unsecured EMI loans/ OD	Action Calendar	Secured Loans
DPD 1 - 29	Soft phone call/SMS	All through the month	First reminder letter
	First reminder (Letter/SMS/Call etc.)	DPD 1 - 29	
DPD 30 - 59	Phone call	All through the month	Second reminder letter
	2 nd reminder letter	DPD 30 – 59	
	A single visit from a collection	As & when required	
	Calling reference/ Guarantor for assistance	As & when required	
DPD 60 - 89	Final reminder letter	DPD 60 - 89	Final reminder letter for adjusts the security with the credit facility.
	Continue physical visit/ group visit	As & when required	
	Appoint recovery agent for selected early warning accounts	As & when required	
DPD 90 - 119	Letter of assistance to the employer (if applicable)	As & when required	Force encashment of deposit help as security with the facility
	Facility call up letter	As & when required	
	Lien off (if any) on deposit balance and exercise the general right of lien over any security, deposits or payables	As & when required	
	Vigorous phone calls	All through the month	
	Single/group visits to office/business & home	As & when required	
	Appoint recovery agents with approval	As & when required	
	Dishonor of cheque & legal notice under NI act	As & when required	
DPD 120 - 179	Rigorous phone calls	All through the month	N/A
	Single/group visits	As & when required	
	Case proceeding	DPD 120 + DPD	
	GD with PS & letter to BRTA not to renew the car fitness/tax token etc. and appoint recovery agent for car repossession	As & when required	

	Case file Under ARAI	As & when required	
DPD 180 + Till write off	Case proceedings	All through the period	N/A
	Pursue police station for arresting the defaulter if arrest warrant issued	Where applicable	
	Simultaneous out of court settlement / alternative dispute resolution (ADR)	Continuous process	

Process description- Referring to the flowchart collection, retail, and small business lies in the step as flow chart mentioned.

- ❖ MIS, C&C receive list of delinquent account for allocation to respective supervisors.
- ❖ With taking approval/ consent from the unit head, supervisor allocation bucket wise delinquent account to collection executive for regularizing account.
- ❖ When payment fall in overdue collection action is taken as par bucket action plan mentioned as above.
- ❖ If the full amount of overdue is paid, the account goes to bucket Zero (“0”). When the partial amount is paid, the account will report to either same bucket or role back to the lower bucket. On the other hand, no amount against overdue is paid, the account will report to next/higher bucket. Collection action will keep continuing as par action plan mentioned in the RCM till writing off.

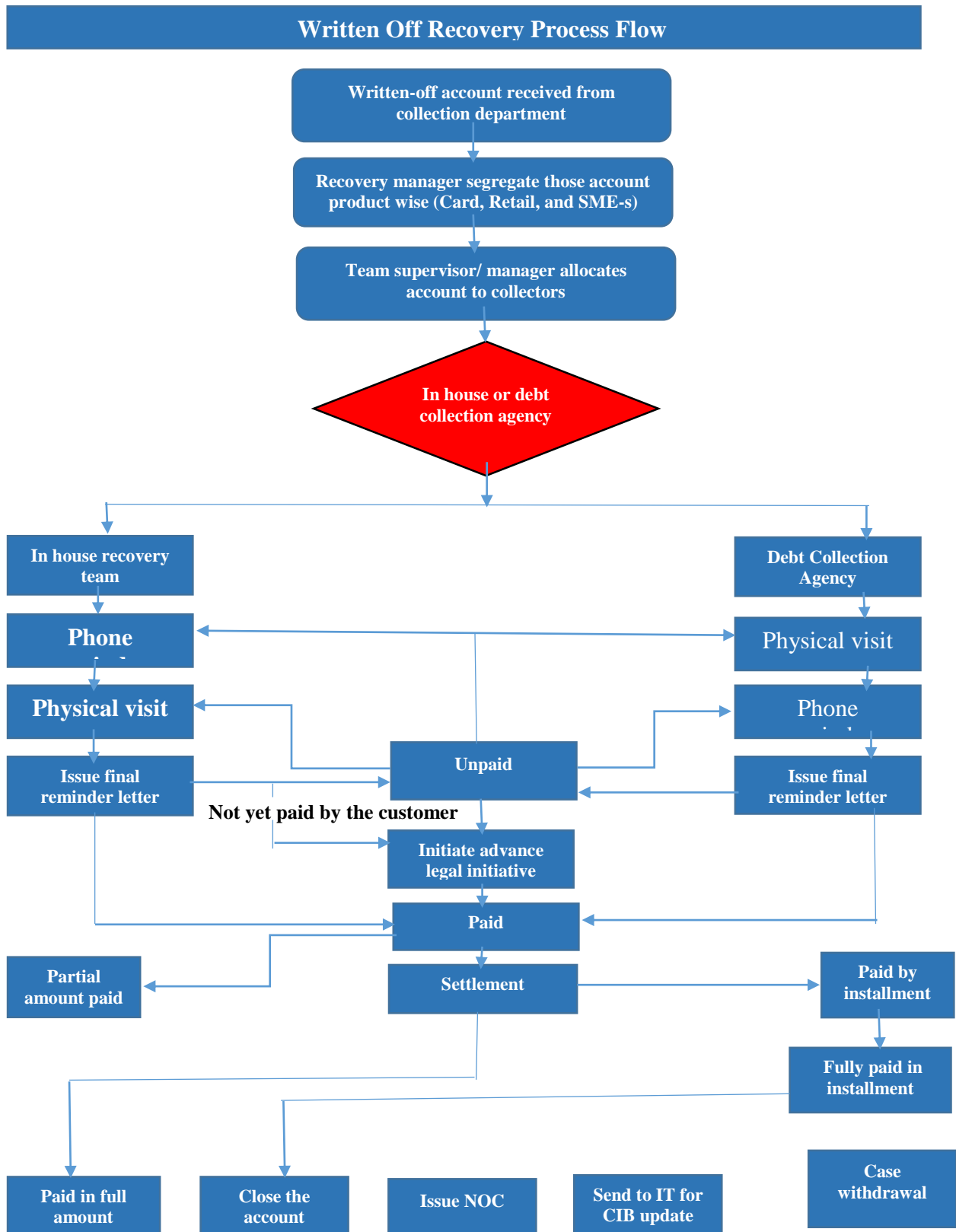
Recovery

Recovery department works to recover from a written-off customer of this bank. It also fosters a culture of responsibility and accountability in the management of the recovery department. The Standard Operations Procedure (SOP) of recovery applies to the activities to be performed for all written off customers across the products. It serves to outline the responsibility of each employee in the policy, process, and procedure relating to recovery management and aims to ensure uniformity in its applications. It will also serve as a reference tool for education and training purposes.

Responsibilities

The core responsibility of the recovery department is to maximize recovery from the written-off portfolio in order to contribute banks’ profits.

Flowchart of Recovery Process-



Process descriptions-

Written-off account allocation process: After execution of written-off (Cards, Retail loan, SMS-s PPG based) Recovery team receives written-off account from collection department through central MIS team. After receiving those accounts, it is segregated and distributed product wise. Manager/unit head recovery distribute those accounts to in-house recovery staff and debt collection agency.

A. In-house recovery team

- ❖ Team supervisor handover the account in excel file as well as print copy.
- ❖ Supervisor provides application files (Cards, Retail loan, SMS-s loan) which he collects from Asset operations/ Cards operations/ CAD and collection team.
- ❖ Collector prepares their won allocation database from the master allocation file. After allocation is done, a collector begins their recovery activities by phone reminder to each and every account.
- ❖ If the collector cannot reach the customer over the phone od SMS, then he /she call the guarantor (If any)
- ❖ Communications are updated in excel file for future reference.
- ❖ If the customer does not make payment after initial recovery effort, collectors physically visit customers place (Office/Residence/Permanent address) in order to convince them to settle the liability. Collectors convey the benefits of payment also further consequence of nonpayment.
- ❖ If the customer still remains unwilling to pay, manager/unit head recovery issue final reminder letter coping guarantor prior to advance the legal initiative.
- ❖ Head of Retail reviews the final reminder letter before sending it to the customer.

B. Debt collection agency:

- ❖ Manager / Unit head recovery identify account where support from debt collection agency is required. The list of account is submitted to the Head of Retail (HoR) for his review.
- ❖ Manager / Unit head recovery send the list with basic information of the customer to agency nominated person. Agency manager collect additional information from the recovery department if required.
- ❖ Agency collector initially visits the customer's office or residence to pursue payment.

- ❖ If they unable to meet/locate the customer when they visit the customer's permanent address as well as guarantors address (if applicable)
- ❖ If they able to reach them or find anywhere of the customer, they pursue them to settle the issue without issue.
- ❖ After a successful negotiation with the customer regarding payment/settlement, they continue phone follow-up till payment is made as per commitment.
- ❖ Issue final reminder letter period to advance the legal initiative. Head of Retail (HoR) reviews the final reminder letter before sending to the customer.

C. Payment and settlement

Recovery team primarily aim to recover the entire written-off amount and customer is pursued according to that. But customer chooses different payment options according to their financial capability. Different payment options are as follows:

- ❖ One go settlement: Customer pays the entire amount in one shot (including interest/ fees/ charges/ legal cost etc.)
- ❖ Settlement by installment: customer pay entire amount (including interest/ fees/ charges/ legal cost etc.) by installment which is agreed by the bank.
- ❖ The settlement with waiver facility: customer settle the account at one go or installment after getting waiver facility. The amount of waiver is decided by management considering financial and other circumstance of the customer. Waiver amount is exercised as per waiver matrix of RCM and SCM.
- ❖ Irregular payment: customer pays occasionally.

If customer pays partial amount/ occasionally then continue recovery effort until the full amount is recovered. After recovered the full amount recovery team declared the account as closed.

D. Account closure

When customer pay entire amount including legal charges (if any) officer recovery/ manager recovery or unit head recovery send the account to the asset operation/CAD/card operation for an amount closer. After close of the account NOC issued in favor of the customer. The list of account sent to IT department/ card operations for CIB up gradation.

E. Case withdrawal

After the full and final settlement of the account officer/ manager/ unit head recovery send the account to the legal division to withdrawal litigation against the customer taking an endorsement from Head of Retail (HoR).

F. Unpaid account

To collect the unpaid amount, the concern department puts continue recovery effort.

Example: a physical visit to the present/ permanent address, frequent communication with guarantor, reinforce legal actions until the account is fully closed.

Limitations of the study

Time Constraints- The internship program duration was only 12 weeks (3 Months). This time is not enough for me to explore every operation of a bank and gather knowledge & information about it. This limitation hindered me to make a concrete study on the organization and make a comprehensive report. It was one of the major limitations that affected covering all components of the study.

Lack of Secondary Information due to the bank's internal policy- The data provided by The City Bank Limited was not sufficient and that affected me to prepare this report covering all the aspects of the organization.

Most of the information was not disclosed by respective personnel of the department because of security issue.

Specific Departmental focus- As I used to work in the Retail Department of the bank, I could manage to collect all the required data from this department merely. Thus I mostly focused on the Credit Risk Management of Retail department and gave an overview for both corporate and SME unit.

Other limitations are as follows-

- ❖ Lack of my practical knowledge, some inadequacy may be available in the report paper.
- ❖ The bank has naturally shown us some irrelevance connecting its most confidential information.
- ❖ The executives of The City Bank Limited were too busy to extra time for the hostage.

Findings & Challenges

As one of the oldest renowned private commercial banks in Bangladesh, The City Bank Limited always gives its utmost effort to provide the best services to its customers in a faster and flawless manner. However, while making the report I have come across some major challenges that they have been facing while managing the credit risk of the bank. These are-

- ❖ **Rigid credit assessment & Risk grading policy-** All the commercial banks are bound to follow Bangladesh Bank's hard and fast credit assessment structure. Thus at times, it becomes hard for them to control and manage this credit risk as their authority in this regard is restricted. So CBL cannot alter the guidelines even if they feel any further assessment of their customers in terms of credit risk would give them greater assurance.
- ❖ **Unavailability of customers' detailed information-** CBL sources their loan applications to the Credit Department via three ways – **Direct Sales Team (DST), Branch, and Payroll**. Sometimes these sources are unable to provide the required documents on time. Thus the files tagged as deferral files, where loans are sanctioned with a promise of providing all the missing documents later. This actually increases the propensity of the credit risk, as the loans are being provided without prior appropriate justification.
- ❖ **Inefficient Third Party agent (CPV agents)** – CBL enforces third-party agent termed as **Contact Point Verification (CPV)** to verify the documents of the customer. These agents physically go to the places, e.g. customers' residence, oversee customers' business location, verify the existence of the properties, and so on. These CPV agents sometimes are not prompt to verify all the documents information on time or they do verify these inappropriately. Then the analysts make a decision on the basis of CPV agents' unjust verification and sanction the loan. Thus the credit risk of the customers goes up in this manner.
- ❖ **Inefficient data management-** The ability to securely store, categorize and search data based on various criteria is required to solve credit risk management. In The City Bank Ltd., the customers' data are not properly managed, and the employees are not efficient enough to manage customers' data on a regular basis. Hence the required data in order to process the loans are not always available, and consequently, the credit risk possibility gets higher.

- ❖ **Lacking risk management tools-** A comprehensive risk assessment scorecard should be able to find out strength and weakness related to the loan. There have some lacking in The City Bank's management system where updated risk assessment tools are not used to find out strength and weakness of loan.
- ❖ **Improper Documentation-** The Documentation team is not very scrupulous while reviewing the documents of the loan applicants, therefore many fraudulent customers are being overlooked providing forged documents which eventually enhance the risk of being the default.
- ❖ **Frequent failure of network system-** CBL uses various banking software in order to facilitate the loan sanction process, e.g. Oracle, Finacle, Lotus, etc. Sometimes while processing the loans, the software gets down, hence it becomes difficult for the analyst to process the credit of the customers on time. They have to wait for 10 to 30 minutes to fix the network system, thus it makes an analyst to proceed the loan application without giving utmost attention to each application, and the risk of getting default gets higher for this.
- ❖ **Lack of proper training for the employees-** A properly trained employee can give the best in order to mitigate the credit risk of a customer by analyzing the loan application documents. However, not all the employees in CBL who work in the credit department are not equally trained. They lack much functional knowledge of the software they use to keep customer data and process the loan. Therefore, the credit risk management is hampered.
- ❖ **Limited group-wide risk modeling infrastructure-** Sometimes it is not enough for a single entity to examine the risk qualities. In The City Bank Limited, there has some lacking group-wide risk modeling infrastructure. For instance, for executing both documentation and stamping there is only one employee who manages a whole load of loan applications, therefore it is generally tough to be very vigilant while reviewing the documents all the time. Consequently, the risk of the customer of being default also increases.

Recommendations

As per my small tenure of being with them and observing the whole process of credit risk management, I would like to give them some recommendations which may add value to ensuring the proper credit risk management of the bank. These are-

- ❖ Make an organized and easily understandable “**Credit Manual**” for both the loan applicants and the employee of the CBL so that they both of them can make them aware regarding the credit rules of the bank.
- ❖ **Documentation team** has to be greater in number and have to make sure that they do their job thoroughly and with integrity. CBL should supervise the work quality of this unit, and make it flawless.
- ❖ Strong enforcement in **Contact Point Verification (CPV)** agent is needed as they are playing a very vital role by verifying the customers’ information physically. CPV agents’ job has to be authentic and evident, otherwise, banks assessment process will be hampered if they provide misleading evidence. Thus, CBL needs to give its utmost attention if the agents working for them properly.
- ❖ **Proper and Structured Training** is needed for the employees of CBL to make them give them a clear idea about all the functions of banking software regardless of their departments and job roles. Though that they can make themselves aware of all the functions and will help them to work efficiently and confidently.
- ❖ **The Source teams** (DST, Branch, & Payroll) should send the loan application files to the Credit department including each and every documents that are necessary to analyze the application. CBL should consider this issue seriously in order to mitigate the chances of sanctioning a loan without having proper documents in it.
- ❖ **A strong uninterrupted network system** should be introduced to decrease the risk of being delayed in loan processing. Plus stronger management of all software usage has been ensured to get better performance from those.
- ❖ **Updated Risk Management tools** should be used in order to assess the loans more flawlessly and efficiently. By using Risk management tools the analysts can review a loan file thoroughly and perfectly.

Conclusion

Financial institutions play a very crucial role in national economy. In recent times, Banking sector is not only depends on traditional method of banking but also modern and digital method of banking. In Bangladesh, banking industry has been treated as a prospective financial sector and it has major contribution in the economy of country. However, this industry of Bangladesh is recently badly affected by bad loans. Thus banks are facing a lots of challenges to maintain liquidity to provide loans to their customers. As a result, the progress of the economy is at stake. One key problem is banks ineffectiveness in evaluating credit risk of its customers. This particular problem is getting more intense as day goes by.

Bangladesh bank has developed set rules and general guidelines to assist the banks in assessing risk and lessen their credit risk. Even after having such guidelines, many banks still fail to gain good credit risk management and run profitably. Thus it is not merely the guidance provided by the Bangladesh bank that all the banks need, a commercial lending institution needs to develop its own lending policies that should be in place to ensure maximum efficiency of effectiveness of credit risk management. In this report, it has become evident that credit risk management is a complex and continuing process, therefore financial institutions must be very serious to addressing these issues.

The City Bank Limited is well prepared to meet the demand for a wide range of banking services in Bangladesh. Its adequate resources both in terms of human and physical are always there to provide customers with the best possible services. CBL has already developed goodwill among its client by offering its tremendous services in the banking industry. And it has a good reputation in the banking industry to manage the credit risk rather than the other banks in Bangladesh. This success did not come overnight, it has resulted from the hard work, dedication, commitment and dynamic leadership of its management over the periods. But they must focus more on customer oriented services and provide better technological advancement relating to banking activities.

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Appendices

Terms & Definition-

CBL- The City Bank Limited

CPV- Contact Point Verification

FINACLE- Core Banking Software

PPG- Product Program Guideline

LAP- Loan Application Pack

MIS- Management Information System

UDC- Undated Cheques

EFTN- Electronic Fund Transfer Network

PDC- Post Dated Cheques

TIN- Tax Identification Number

BA Letter- Banking Arrangement Letter

RFC- Retail Finance Center

DST- Direct Sales Team

SOP- Standard Operating Procedure

LOG- Letter of Guarantor

DP- Demand Promissory

LOTUS- Banking Software

CASA- Current & Savings

C&C- Credit and Collections

HoR- Head of Retail

Bn- Billion

m- Million

LOTUS- A Banking Software

Manarah- An Islamic product of CBL