

Analysis of Credit Management Of

Janata Bank Ltd.



Janata Bank Limited

জনতা ব্যাংক লিমিটেড

A committed Partner in Progress

INTERNSHIP REPORT

“Analysis of Credit Management Of Janata Bank Ltd.”

Prepared for

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Internship supervisor

Senior Lecturer

Bachelor of Business Administration

BRAC University

Prepared by

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Program:MBA

Date of Submission: 17.09.2014



BRAC University

LETTER OF TRANSMITTAL

17 September, 2014

To

The Supervisor,

Ms. Syeda S. Shahbazi Ahmed

Senior Lecturer

Bachelor of Business Administration

BRAC University

Subject: Submission of Internship Report.

Dear Madam,

This is my pleasure to submit this report on “Analysis of Credit Management of Janata Bank Ltd”. As partial requirements, I have got the opportunity to work in Janata Bank Limited for my internship program which is essential part of my academic program.

I enjoyed the internship. I also feel immense interest at the preparation of the report. Although it is true that, my internship at Posta Branch of Janata Bank doesn't match with subject matter of my internship report assigned by you. But it gave me the opportunity of practical experience of the activities of a commercial bank. I would like to thank you for your supportive suggestions and helping me to carry on this study.

I will be grateful for any clarification when needed. I shall be highly obliged if you are kind enough to approve this internship report.

Sincerely yours

Md. Masud Rana

ID – 12164033

Major in Finance

BRAC University

DECLARATION

I am Md. Masud Rana, student of Masters of Business Administration (MBA), department of Finance of BRAC University; do hereby declare that the Internship Report on “Janata Bank Limited, Posta Branch” has not been submitted by me for any degree, diploma, title or recognition before.

Md. Masud Rana

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Major in Finance

Program-MBA

BRAC University

ACKNOWLEDGEMENT

As a student of MBA Program, Internship is one of the most important partial requirements of the total courses MBA program. In this regard I would like to thank all the faculties BRAC University who helps me to finish my courses.

This is a synopsis of my recent study on “Analysis of Credit Management of Janata Bank Ltd” as a part of the internship program. At the beginning I want to remember almighty Allah for giving me the opportunity, strength to do this work smoothly & blessings for our success.

I would like to thank my honorable teacher Ms. Syeda S. Shahbazi Ahmed, BRAC University, Faculty of Business Administration, for helping me to prepare the report. I will remain indebted to him for the valuable suggestions and the time he has given in supervising my work on report.

I was placed in Posta Branch of Janata bank limited to work as an intern. The members of Janata Bank Ltd. management were very co-operative and helpful. They helped me through providing various data, guidance and direction. I am grateful to M. Shafayet Hossain, Manager (Branch Incharge) of Janata Bank Limited for his cooperation and necessary support.

I am also grateful to all other employees of the branch for their support and assistance. I humbly appreciated the patience of the entire individual at Janata Bank who spent their time in making me adapt quickly to the environment of the bank.

Lastly I sincere gratitude to all the wonderful people of BRAC University (my teacher, my classmates and others) for supports and understanding. It would be impossible without their help.

TO WHOM MAY IT CONCERN

This is to certify that the internship report on “Analysis of Credit Management Of Janata Bank Ltd” in the bona fide record at the report is done by Md. Masud Rana as a part fulfillment of the requirement of MBA (regular) program From **BRAC University**.

The report has been prepared under my guidance and is a record of the bona fide work carried out successfully.

.....
Ms. Syeda S. Shahbazi Ahmed
Senior Lecturer
Bachelor of Business Administration
BRAC University

PREFACE

Now a day, education is not just limited to books and classrooms. In today's world, education is the tool to understand the real world and apply knowledge for the betterment of the society as well as economy. From education the theoretical knowledge is obtained from courses of study, which is only the half way of the subject matter. Practical knowledge has no alternative. The perfect coordination between theory and practice is of paramount importance in the context of the modern business world in order to resolve the dichotomy between these two areas. Therefore, an opportunity is offered by Dept. MBA of BRAC University, Dhaka, for its potential business graduates to get three months practical experience, which is known, as "Internship Program". For the competition of this internship program, the author of the study was placed in a bank namely, "Janata Bank Limited" internship Program brings a student closer to the real life situation and thereby helps to launch a career with some prior experience.

EXECUTIVE SUMMARY

This report is prepared on the basis of my three months practical experience at Janata Bank Limited, (Posta Branch). The internship program helps me to learn more about the practical situation of a financial institution. Loans or credits comprise the most important asset as well as the primary source of earning for the banking institutions. On the other hand, loan/credit is also the major source of risk for the bank management. A prudent bank management should always try to make an appropriate balance between its return and risk involved with the loan portfolio. From this report, I have learn about how Janata Bank provide loan and advance and how they recovery loan and advance. I have also learned about there credit policy applying for disbursement and recovery of loan and advance. In this report, I have used mainly secondary data. But I have also used some primary data. During the preparation of this, I have faced some problem. The main problems are lack of information and time limitation.

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Janata Bank at a Glance

HISTORY OF JANATA BANK LTD

Janata means people. This is a progressive Bank. Immediately after the emergence of Bangladesh in 1971, the erstwhile United Bank Limited and Union Bank Limited were nationalized and renamed as Janata Bank. It has been operating since its inception in 1972 both in Bangladesh and overseas. Janata Bank Ltd. has been playing a significant role in the economic development of the country by mobilizing savings and distributing funds into different productive sectors. It is also a major player in the fields of micro-credit and software development.

Janata Bank has an authorized capital of Tk. 20000 million (approx. US\$ 250 million), paid up capital of Tk. 19140.00 million, reserve of Tk.17976.20 million. The Bank has a total asset of Tk. 586082.98 million as on 31st December 2013. Immediately after the emergence of Bangladesh in 1971, the erstwhile United Bank Limited and Union Bank Limited were renamed as Janata Bank. On 15th November, 2007 the bank has been corporatised and renamed as Janata Bank Limited.

> Janata Bank Limited operates through 898 branches including 4 overseas branches at United Arab Emirates. It is linked with 1239 foreign correspondents all over the world.

> The Bank employs more than 15(fifteen) thousand persons.

> The mission of the bank is to actively participate in the socio- economic development of the nation by operating a commercially sound banking organization, providing credit to viable borrowers, efficiently delivered and competitively priced, simultaneously protecting depositors funds and providing a satisfactory return on equity to the owners.

> The Board of Directors is composed of 13 (Thirteen) members headed by a Chairman. The Directors are representatives from both public and private sectors.

> The Bank is headed by the Chief Executive Officer & Managing Director, who is a reputed banker.

> The corporate head office is located at Dhaka with 10 (ten) Divisions comprising of 44 Departments.

MISSION OF JANATA BANK LTD.

The mission of the bank is to actively participate in the socio- economic development of the nation by operating a commercially sound banking organization, providing credit to viable borrowers, efficiently delivered and competitively priced, simultaneously protecting depositor's funds and providing a satisfactory return on equity to the owners.

Vision OF JANATA BANK LTD.

To become the effective largest commercial bank in Bangladesh to support socio-economic development of the country and to be a leading bank of South Asia.

SERVICES PROVIDED BY JANATA BANK LTD.

Janata Bank Ltd. offers all the major banking facilities and services to its customers. The Bank with its network spreading throughout the country has a unique feature of plugging back savings from those places and then investing them into different loan portfolios.

Janata Bank Ltd. with its wide ranging branch network and skilled personnel provides prompt and personalized services like issuing:

- a. Demand Draft
- b. Telegraphic Transfer
- c. Mail Transfer
- d. Pay Order
- e. Security Deposit Receipt
- f. Transfer of fund by special arrangement,
- i) Normal transfer

ii) Electronic transfer through Ready Cash Card.

The Bank provides the following Internet facilities:

- Current/Savings/STD account status
- FDR account status
- Advance account status
- Loan account status

Remittance services are available at all branches and foreign remittances may be sent to any branch by the remitters favoring their beneficiaries. Remittances are credited to the account of beneficiaries instantly or within shortest possible time. Janata Bank Ltd. has correspondent banking relationship with all major banks located in almost all the countries/cities. Expatriate Bangladeshis may send their hard earned foreign currencies through those banks or may contact any renowned banks nearby (where they reside/work) to send their money to their dear ones in Bangladesh.

Janata Bank Ltd. has already established a world wide network and relationship in international Banking through its 4 (four) overseas branches and 1202 foreign correspondents. The Bank has earned an excellent business reputation in handling and funding international trade particularly in boosting export & import of the country. The Bank finances exports within the frame-work of the export policy of the country.

CREDIT PROGRAM

General and Industrial Credit:

Janata Bank Ltd. has formulated its policy to give priority to small and medium business while financing large scale enterprise through consortium of banks total loan and advance of the bank stood at BDT 478,535 million as of December 31, 2013 as compared to BDT 409,767 million in 2012. Increase rate is 16.78% compared to 2012. Following the guideline of Bangladesh Bank,

credit facilities have been extended to productive and priority sectors. In extending credit facilities, the Bank has given due importance to the needs and requirements of both public and private sectors. Major sectors include Jute, Textile Ind. & trade, Steel & Engineering, Food & Allied, and Export & Import etc.

Year	Loan & Advance(Tk in million)
2006	138,493
2007	121,200
2008	144,678
2009	166,359
2010	225,732
2011	257,801
2012	409,767
2013	478,535

LOANS AND ADVANCES:

The main focus of Janata Bank Ltd. Credit Line/Program is financing business, trade and industrial activities through an effective delivery system. Janata Bank Ltd. offers credit to almost all sectors of commercial activities having productive purpose. The loan portfolio of the Bank encompasses a wide range of credit programs covering about 200 items. Credit is also offered to 15 (fifteen) thrust sectors, as earmarked by the govt., at a reduced interest rate to develop frontier industries. Credit facilities are offered to individuals, businessmen, small and big business houses, traders, manufactures, corporate bodies, etc.

Following the guidelines of Bangladesh Bank, credit facilities have been extended to productive and priority sectors. The outstanding advance of the bank is Tk.478,535 million on 31st

December 2013. In credit facilities, the Bank has given due importance to the needs and requirements of both public and private sector.

Sector wise Advances are shown below:

Credit constitutes 50% of banks assets and this portfolio is the most important objective of the Bank of which 8.44% is classified. The elaborate status is as follows:

BL	DS	SS	SMA	Standard	Total
10861.00	1128.00	2047.00	1649.00	150674.00	166359.00
6.53%	0.68%	1.23%	0.99%	90.57%	100%



MY WORKING AREA:

First of all, I was asked to work in different sections of General Banking. Here we dealt with new customers who wanted to get information about the branch and will to deal with the branch. This is a very interesting department because here we met people of different types and deal with them accordingly. In this section, I observed the following functions:

Dispatch Section

In dispatch section main job is keep record on inward and outward document. If any document came into bank for various purposes from different organization or bank head office or another branch but also if any document ,application go outward from bank these all the record are included in dispatch section (example : foreign exchange application, document letter of credit, joining application , a/c reopening, A/c closing . In this section particularly I work done very well.

Issuance of Demand Draft (DD) / Pay Order (P.O)

A demand draft is provided to the client in whom he has to specify that on which bank it is drawn. The amount both in words and figures is written on the demand draft. Pay order is only payable to payee. In this section I know how to write PO and what is this process.

Bills Remittance Department:

It is most important and interesting department. This section deals with the transfer of money from one branch to another branch. Nearly six drafts issued daily from this department. Here I know the amount transferred and what is the procedure. This department also deals with T.T. transfer of money.

Foreign Remittance Department:

In this department one person send money in Bangladesh from outside of the national boundary, customer come to the officer and give a PIN number. If Pin number is right bank pay the customer those amount. My work of this department is fill up the form and collect national ID card and other necessary papers.

Deposit Department:

Deposit department deals with current, saving fixed accounts for a long period. In current account the bank does not offer any interest you can deposit or withdraw any amount during banking hours. In Fixed account people normally of old age are more interested because they get a lump sum amount every month as a markup or interest. These accounts are normally for one month to seventy two month.

Cash Collection:

In cash counter I used to collect cash from customers that they used to deposits in Saving Accounts.

Assisting Customers to Open Bank Account:

I used to help customers to fill up the account opening form. Also provided information regarding the types of papers they need to open a particular account.

Providing Cheque:

Customers who open new bank account have entitled to receive a cheque book after one week of account opening. I used to collect account number from them, verified it and issue a new cheque for them.

Introduction



RATIONALE OF THE STUDY

Due to the increased competition of the increased number of commercial banks and the growing economy, the expectations of the customers have also increased than ever before. Realizing the present condition, banks, especially the commercial banks are trying to elevate their loan giving service as much as reachable to their customers. The most serious difficulty facing the financial sector is the high level of interest rate and inflation rate. So it is the duty of the top management of the commercial banks to work with the situation.

OBJECTIVES OF THE REPORT

The objectives of the report are to determine how credit policy applied in sanctioning and recovering loans and advances. Credit policy varies in terms of loan sector, status of the organization, government policy, fiscal budget and guidelines etc.

Specific objectives:

- To present an overview of Janata Bank Limited(JBL)
- To assess the credit structure of the JBL in practice.
- To measure the effectiveness of the bank in the utilization of available resources.
- To identify the recovery performance of JBL.
- To point out the problems in fund utilization and recovery thereon.
- To make a critical reasoning in respect to the treatment of provision for bad and doubtful credit.

- To assess and highlight on the legal actions followed by the JBL.
- To find out the extent of similarities and dissimilarities in the course of action followed by Janata Bank. Limited.
- To compare the credit supervision of. JBL
- To compare the quantitative change from phase-1 (1998-2002) to phase-2 (2003-2010).
- To find out problems and suggesting recommendations for further improvement.

SCOPE OF THE STUDY

Janata Bank Limited is the second largest commercial Bank in Bangladesh. Janata Bank Limited operates through 874 branches including 4 overseas branches at United Arab Emirates. It is linked with 1202 foreign correspondents all over the world. I am assigned to learn practical knowledge from Janata Bank Limited, at Hazaribag Branch. In this study I would try to concentrate on the theoretical aspect of credit management, that is, the definition of credit management, policy of credit management, tools for managing credit etc. I would analyze the data on the bank and various programs for loan recovery, problems in loan in loan recovery, pattern of loan recovery and the performance of the bank under study in loan recovery, the information in respect to the classification of unsound credit and provision thereon and also concentrates on the performance of the bank. And finally I would conclude with the critical evaluation of the credit management under the guidelines of the Bank Companies Act 1991, IAS#30 and a discussion on the major findings and recommendations.

METHODOLOGY OF THE STUDY

The study is performed based on the information extracted from different sources collected by using a specific methodology. To fulfill the objectives of this report total methodology has divided into two major parts:

- **Data Collection Procedure:**

In order to make the report more meaningful and presentable, two sources of data and information have been used widely.

The “Primary Sources” are as follows:-

- I have discussed with officials about the credit management of JBL.
- Relevant file study as provided by the officers concerned.
- Sharing practical knowledge of officials.
- In-depth study of selected cases.

The “secondary Sources” are as follows:-

- Annual report of Janata Bank Limited
- Periodicals Published by Bangladesh Bank
- Office files and documents
- Study related books and journals
- Web sites

- **Data Processing & Analysis:**

Collected information have then processed & compiled with the aid of MS Word, Excel & other related computer software. Necessary tables have been prepared on the basis of collected data and various statistical techniques have been applied to analyses on the basis of classified information. Detail explanation and analysis have also been incorporated in the report.

- **LIMITATION OF THE STUDY**

To prepare a report on the topic like this in a short duration is not easy task. From the beginning to end, the study has been conducted with the intention of making it as a complete and truthful one. In preparing this report some problems and limitations have encountered which are as follows:

- The main constraint of the study was insufficiency of information, which was required for the study. There are various information the bank employee cannot provide due to security and other corporate obligations.
- As the data, in most cases, are not in organized way, the bank failed to provide all information.
- Due to time limitation, many of the aspects could not be discussed in the present report.
- Since the bank personnel were very busy, they could not pay enough time.
- Lack of opportunity to access to internal data.
- I had to base on secondary data for preparing this report.
- Legal action related information was not available.
- Lack of in-depth knowledge and analytical ability for writing such report.



Credit Management

CREDIT MANAGEMENT

Loans or credits comprise the most important asset as well as the primary source of earning for the banking institutions. On the other hand, loan/credit is also the major source of risk for the bank management. A prudent bank management should always try to make an appropriate balance between its return and risk involved with the loan portfolio. Credit appraisal process is the tool, which helps the bank to predict the risk and return on the proposed project for credit disbursement. To get a clear idea about credit appraisal process we need to know the key factors of credit appraisal procedures.

Credit:

The word credit is derived from the Latin word “credo” which means “I believe” and is usually defined as the ability to buy with a promise to pay. It consists of actual transfer and delivery of goods and services in exchange for a promise to pay in future. It is simply the opposite of debt. Diversification of banking service has accelerated the use of credit in the expansion of business operation. It is a fundamental precept of banking everywhere that advances are made to customers in reliance on his promise to pay rather than the security held by the banker.

. *Principles of Credit* A prudent Banker should always adhere to the following general principles of lending funds to his customers.

- Background, Character and ability of the borrowers
- Purpose of the facility,
- Term of facility,
- Safety,

- Security,
- Profitability,
- Source of repayment,
- Diversity.

PROCESS OF CREDIT MANAGEMENT

Credit management must be organized in such a process that the bank can minimize its losses for payment of expected dividend to the shareholders. The purpose of this process is to provide directional guidelines that will improve the risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the ongoing improvement of concerned bank.

The guidelines for credit management may be organized into the following sections:

Policy guidelines:

- a. Lending guidelines
- b. Credit assessment and risk grading
- c. Approval authority
- d. Segregation of duties
- e. Internal control and compliance

Management structure and responsibilities

Program guidelines:

- a. Approval process
- b. Credit administration

c. Credit monitoring

d. Credit recovery

Now the guidelines are discussed in the following:

- **Policy guidelines**

a. *Lending guidelines*: The lending guidelines include the following:

- Industry and Business Segment Focus
- Types of loan facilities
- Single borrowers/ group limits/ syndication
- Lending caps
- Discouraged business types

As a minimum, the followings are discouraged:

- Military equipment/ weapons finance
- Highly leveraged transactions
- Finance of speculative investments
- Logging, mineral extraction/ mining, or other activity that is ethically or environmentally sensitive
- Lending to companies listed on CIB black list or known
- Counter parties in countries subject to UN sanctions
- Lending to holding companies.

b. *Credit Assessment and Risk Grading*:

A thorough credit and risk assessment should be conducted prior to the granting of loans, and at least annually thereafter for all facilities.

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

- Environment or social risk inputs

- Amount and type of loan (s) proposed
- Purpose of loans
- Loan structure (tenor, covenants, repayment schedule, interest)
- Security arrangement
- Any other risk or issue
- Risk triggers and action plan-condition prudent, etc.

Risk is graded as per Lending Risk Analysis (LRA), Bangladesh Bank's Guidelines of classification of loans and advances.

- *Approval Authority:*

Approval authority may be as the following:

- Credit approval authority has been delegated to Branch Manager, Credit Committee by the MD/ Board
- Delegated approval authorities shall be reviewed annually by MD/ Board.

MD/ Board:

- Approvals must be evidenced in writing. Approval records must be kept on file with credit application
- The aggregate exposure to any borrower or borrowing group must be used to determine the approval authority required.
- Any credit proposal that does not comply with Lending Guidelines, regardless of amount, should be referred to Head Office for approval.

d. Segregation of Duties:

Banks should aim at segregating the following lending function:

- Credit approval/ risk management
- Relationship management/ marketing
- Credit administration

- *Internal Control and Compliance:*
Banks must have a segregated internal audit/ control department charged with conducting audits of all branches.
- **Management structure and responsibilities**

The following chart presents an example of credit management structure:

Program guidelines

- Approval process:* The following diagram illustrates an example of the approval process:
- Credit administration:* The credit administration function is critical in ensuring that proper documentation and approvals are in place prior to the disbursement of loan facilities.
- Credit monitoring:* To minimize credit losses, monitoring procedures and systems should be in place that provides an early indication of the deteriorating financial health of borrower.
- Credit recovery:* The recovery unit of branch should directly manage accounts with sustained deterioration (a risk rating of sub-standard or worse). The primary functions of recovery unit are:
 - Determine account action plan/ recovery strategy
 - Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate.
 - Ensure adequate and timely loan loss provisions are made based on actual and expected losses.

TOOLS OF CREDIT MANAGEMENT

For credit management, a firm may use tools available to them. Such tools include Credit Risk Grading (CRG) and Financial Spread Sheet (FSS). Credit risk grading is an important for credit risk management as it helps the banks and financial institutions to understand various dimensions of risk involved in different credit transactions. The aggregation of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of credit portfolio of a bank or branch.

The Lending Risk Analysis (LRA) manual introduced in 1993 by the Bangladesh Bank has been in practice for mandatory use by the banks and financial institutions for loan size of BDT 1.00 crore and above. However, the LRA manual suffers from a lot of subjectivity, sometimes creating confusion to the lending bankers in terms of selection of credit proposals on the basis of risk exposure. Meanwhile in 2003 end, Bangladesh Bank provided guidelines for credit risk management of banks wherein, it recommended for the introduction of Risk Grade Score Card for risk assessment of credit proposals.

Bangladesh Bank expects all commercial banks to have a well defined credit risk management system which delivers accurate and timely grading. In practice, a bank's credit risk grading system should reflect the complexity of its lending activities and the overall level of risk involved.

Definition of Credit Risk Grading (CRG)

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

Functions of Credit Risk Grading

Well-managed credit risk grading systems promote bank safety and soundness by facilitating informed decision-making. Grading systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows bank management and examiners to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns.

Use of Credit Risk Grading

- The Credit Risk Grading matrix allows application of uniform standards to credits to ensure a common standardized approach to assess the quality of individual obligor, credit portfolio of a nit, line of business, the branch or the bank as a whole.
- As evident, the CRG outputs would be relevant for individual credit selection, wherein a borrower or a particular exposure/ facility are rated. The other decisions would be related to pricing (credit-spread) and specific features of credit facility. These would largely constitute obligor level analysis.
- Risk grading also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk portfolio level analysis.

Number and short name of grades used in the CRG

The proposed CRG scale consists of 8 categories with short names and numbers are provided as follows:

Grading	Short Name	Number
Superior	SUP	1
Good	GD	2
Acceptable	ACCPT	3

Marginal/ Watch list	MG/ WL	4
Special Mention	SM	5
Sub Standard	SS	6
Doubtful	DF	7
Bad and Loss	BL	8

Financial Spread Sheet in Credit Management

1. Financial Spread Sheet provides a quick method of assessing business trends and efficiency

- Assess the borrowers ability to repay
- Realistically show business trends
- Allow comparisons to be made within industry

2. Borrowers that provide Financial Spread Sheets are more likely to be good borrowers

- At two of the client banks the FSRP consultants could not find 10 bad loans with 3 consecutive years of financial statements available.
- Out of 25 good loans reviewed by the FSRP consultants, at two of the client banks, 3 consecutive years of financial statements were available on all of them.
- The willingness of the customer to provide detailed financial information and to answer question regarding that information, is indication of the cooperation the bank will receive in the future.

3. A Financial Spread Sheet is an important tool in a discipline of organized approach to credit analysis.

- The historic financial reports of a company are a primary indicator of its future financial position. Spread sheets allow proper analysis of financial statements.



Credit Policy

MEANING OF CREDIT POLICY

Policy entails projected course of action. Janata Bank Ltd. has its own policy granting credit although credit is always a matter of judgment applying common sense in the light of one's experience.

A sound credit policy includes among other things safety of funds invested vis-à-vis profitability of the bank. Encouraging maximum number of small loans is better than concentration in a particular type of advances, which ensures sufficient liquidity with least incidence of bad debts.

It has to be borne in mind that a good loan allowed to a properly selected borrower is half collected. In order to make a good loan there should have a good loan policy.

OBJECTIVE OF CREDIT POLICY

There are some objectives behind a written credit policy of Janata Bank Ltd. that are as follows;

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

FORMULATION OF CREDIT POLICY

One of questions that should arise in a discussion of credit is who should formulate the policy. Although the ultimate responsibilities lay at the highest level in the organization i.e. the board of directors. Yet the actual drafting shall have to be done by the senior lending office in consultations with the chief executive officer and with contribution from senior officers,

associates and subordinates. Obviously the level of origin will vary with the size and structure of the organization. The matter then referred to the board for approval after careful examination consideration and discussion.

ESSENTIAL COMPONENTS OF A SOUND CREDIT POLICY:

There can be some variations based on the needs of a particular organization, but at least the following areas should be covered in any comprehensive statement of credit policy and JBL's policy also covers these areas:

- **Legal consideration:** The bank's legal lending limit and other constraints should be set forth to avoid inadvertent violation of banking regulations.
- **Delegation of authority:** Each individual authorized to extend credit should know precisely how much and under what conditions he or she may commit the bank's funds. These authorities should be approved, at least annually, by written resolution of the board of directors and kept current at all times.
- **Types of credit extension:** One of the most substantial parts of a loan is a delineation of which types of loans are acceptable and which type are not.
- **Pricing:** In any profit motivated endeavor, the price to be charged for the goods or services rendered is of paramount without it, individuals have few guidelines for quoting retag or fees, and the variations resulting from human nature will be a source of customer dissatisfaction.
- **Market Area:** Each bank should establish its proper market area, based upon, among other things, the size and sophistication of its organization its capital standpoint, defining one's market area is probably more important in the lending function than in any other aspect of banking.
- **Loan Standard:** This is a definition of the types of credit to be expended, wherein the qualitative standards for acceptable loans are set forth.
- **Credit Granting procedures:** This subject may be covered in separate manual, and usually is in larger banks. At any rate, it should not be overlooked because proper procedures are essential in loan establishing policy and standards. Without proper procedure for granting credit and constant policing to ensure

that these procedures are meticulous carried out, the best conceived loan policy will not function and inevitable, problems will develop.

LENDING GUIDELINES:

As the bank have a high rate of non-performing loans. Banks risk taking applied should be contained and our focus should be to maintain a credit portfolio keeping in mind of bank's capital adequacy and recovery strength. Thus bank's strategy will be invigorating loan processing steps including identifying , measuring , containing risks as well as maintaining a balance portfolio through minimizing loan concentration , encouraging loan diversification , expanding product range , streamlining security , insurance etc. as buffer again unexpected cash flow .

Industry and business segment focus

Industry segment focuses on Textile, Pharmaceuticals, Agro-based, Food and allied, Telecommunication, Power generation and distribution, Health care, Entertainment Services, Chemicals, Transport, Infrastructure development, Linkage industry, Information technology, Ceramics, Others as decided from time to time. And business segment focuses on Distribution, Brick field, Rice mill/ flour mill/ oil mill, Work order, Yarn trading, Cloth merchant, Industrial spares, Hardware, Electronic and electrical goods, Construction materials, Fish trading, Grocery, Wholesale/ retail, Others as dedicated from time to time

Types of credit facilities: Bank will go for

- Term financing for new project had BMRE of existing projects (large, medium, SME, SCI).
- Working capital for industries, trading services and others (large , medium, SME, SCI).
- Trade finance for import and export
- Lease finance
- Small loan for traders, micro enterprise and other productive small venture.
- Consumer finance
- Fee business



Fund Investment by Janata Bank

INTRODUCTION

The principal function of a bank is to lend. Lending is a dynamic activity. It is through the medium of lending the banking industry promotes economic activity, instills and encourages, at the individual level, the principal of self-reliance, and yield earnings for the bank. It is lending alone that brings banking into a more meaningful and purposeful contract with public and, therefore, has the greatest impact upon them.

Proper utilization of fund is an essential pre-requisite of successful bank management. The procurements of funds supported by an efficient deployment of that procured fund lead a bank to the highest point of profitability. I would try to concentrate on Janata Bank Ltd.'s nature, pattern, and allocation of invested resources in this chapter. The bank under study has divergence in its investment portfolio, loan programs, advances and recovery rate etc.

ECONOMIC SECTOR WISE DISTRIBUTION OF FUND

Janata Bank Ltd. is engaged in extending long, medium and short term loans to various economic sectors in the country. As Janata Bank Ltd. extends its credit programs all over the economy such as agricultural credit program, industrial credit program and commercial financing, the bank tries to achieve significant profit from its operations and also to improve the economic conditions of the general public of the country.

Industry-Wise Classification Of Loans And Advances

	FY2013	FY2012
Rural Credit	16,955,666,250	16,418,300,000
Textile (Industry & Trade)	18,805,800,000	18,050,200,000
Jute Industries	7,400,100,000	4,987,400,000
Tannery (Industry & Trade)	5,430,900,000	3,722,300,000
Sugar & Food	4,822,300,000	3,789,600,000
Food (Industry & Trade)	2,057,600,000	2,190,400,000
Steel & Engineering	7,980,800,000	2,715,500,000
General House Building	1,073,800,000	1,466,200,000
Bricks	1,472,500,000	1,058,500,000
Cold Storage	448,000,000	543,400,000
Jute Trade	165,800,000	217,500,000
Tea	3,600,000	2,900,000
Transport	213,927,008	754,200,000
Loan to purchase shares (Margin loan)	2,905,538,084	2,437,782,197
Others	59,730,806,751	77,208,637,163
Import Credit	50,694,961,070	73,358,800,000
Industrial Credit	57,530,600,000	53,531,970,000
Export Credit	48,850,400,000	43,353,900,000
Total	286,543,099,163	305,807,489,360

NATURE WISE DISTRIBUTION OF LOANS AND ADVANCES

Sanctioning advances to customers and others is one of the principal services of a modern bank.

Advances by the commercial banks are made in different forms:

- Loans
- Overdrafts
- CC
- LIM
- LTR
- Bills purchase and discounted

Janata Bank Ltd. sanctions loans under the above mentioned category. It usually grants short term advances which are utilized to meet the working capital requirements of the borrower. Only a small portion of the bank's demand and time liability are advanced on long term basis where the banker usually insists on a regular repayment by the borrower in installments. While lending fund, a banker, therefore, follows a very cautious policy and conduct his business on the basis of well-known principles of sound lending in order to minimize the risk.

MATURITY GROUPING OF DISTRIBUTION LOANS AND ADVANCES

At the very beginning of taking decision for giving credit, Janata Bank Ltd. mainly concentrates mainly on liquidity. As it is doing business by public deposits, it is bound to pay the money when people want. A sizable portion of bank advances are, therefore, granted to meet the working capital requirements of the borrower rather than to meet the fixed capital requirement, i.e., construction of building or purchase of fixed deposits. A banker would be failing in his duty to safeguard the interest of his depositors and shareholders if his credit policy does not provide a method of gradual repayment and final recovery of the money advanced.

For liquidity reasons, Janata Bank Ltd. is giving credit on short period basis and against security. Short term loans ensure liquidity to a greater extent than long term loan. We can classify the bank loans and advances under the following maturity stage:

- Payable on demand
- Payable within 3 months
- Payable within 3 months to 12 months
- Payable within 1 year to 5 years
- Payable in more than 5 years

SECURITIES IN CREDIT MANAGEMENT

One of the most important functions of a bank is to employ its fund by way of loans and advances to its customers and a bank's strength depends considerably on the quality of its loans

and advances. In order times, when the bankers knew the customers personally and intimately and had complete confidence in the integrity and honesty of a customer, they used to allow loans and advances without a security. The position is quite different today. Banks having a large number of officers over a wide area cannot allow loans and advances without retention of security in one form or the other.

Though the banks are now expected to lay greater emphasis on the purpose for which the borrower needs rather than security he can afford to give, security continues to be one of the most important factors which determines to a significant extent the banker's willingness to lend money.

Security is obtained as a line of last defense to fall back upon. It is meant to be an insurance against emergency. But taking security, bank acquires a claim upon the assets of the borrower if repayment is not made as planned. But what should be the significant securities of loans depends in the guidelines prescribed by the Bangladesh Bank through BCD circular no. 17/1977 and also the negotiation of the respective branch to its borrowers. The most significant categories of security lodged are as:

- Goods and commodities
- FDR
- Real estate
- Stock exchange securities
- Life insurance policies
- Gold and gold ornaments
- Documents of title of goods
- Supply bills

Janta Bank Ltd. keeps sufficient security before final sanctioning of loans and advances.



Procedure of Loan Disbursement of Janata Bank Ltd.

GETTING CREDIT INFORMATION

Janata Bank Ltd. collects credit information about the applicant to determine the credit worthiness of the borrower. The bank collects the information about the borrower from the following sources:

- Personal investigation.
- Confidential report from other bank Head Office/Branch/chamber of the commerce.
- CIB Report from Central Bank.

INFORMATION COLLECTION

The loans and advances department gets a form filled by the party seeking a lot of information. The information is listed below:

- Name and address of the borrower (present and permanent).
- Constitution or status of the business.
- Data of establishment and place of incorporation.
- Particulars of properties, partners and Directors.
- Background and business experience of the borrowers.
- Particulars of personal assets, name of subsidiaries, percentage of share holding and nature of business.
- Details of liabilities in name of borrowers, in the name of any directors.
- Financial Statement of the last three years.
- Nature and details of business/products.
- Details of securities offered.
- Proposed debt equity ratio.
- Other relevant information.

ANALYZING THESE INFORMATION

Janata Bank Ltd. then starts examination whether the loan applied for, is complying with its lending policy. If comply, then it examines the documents submitted and the credit worthiness. Credit worthiness analysis, i.e. analysis financial conditions of the loan applicant is very important. If loan amount is more than 50, 00,000, then bank goes for Lending Risk Analysis (LRA) and Spreadsheet Analysis (SA) which are recently introduced by Bangladesh Bank. According to Bangladesh Bank Rules, LRA and SA are a must for the loan exceed of one crore.

If these two analyses reflect favorable condition and document submitted for the loan appeared to be satisfactory, then bank goes for further action.

LENDING RISK ANALYSIS (LRA)

LRA is a very important and vital analysis for deciding whether the loan proposal is potential or not. Many types of scientific, mathematical, statistical and managerial tools and devices are required to perform this analysis. Janata Bank Ltd. maintains a prescribed format for Lending Risk Analysis, which includes a spreadsheet to analyze a lot of things. It is not possible to discuss the entire LRA in this report.

Lending Risk Analysis (LRA)

- *Industry Risk:*
 - Supply Risk- What is the risk of failure to disruption in the supply of input?
 - Sales Risk- What is the risk of failure due to disruption sales?
- *Company Risk:*
 - Company Position Risk:
 - Performance Risk- What is the risk if the company position is so weak that it can not perform well enough to repay the loan, given expected external condition?
 - Resilience Risk- What is the risk of failure due to lack of resilience to unexpected external condition?
 - Management Risk:
 - Management Competence Risk- What is the risk of failure due to lack of management competence?

- Management Integrity Risk- What is the risk of failure due to lack of Management Integrity?
- *Security Risk:*
 - Security Control Risk- What is the risk that the bank fail to realize the security?
 - Security Cover Risk- What is the risk that realized security value is less than the exposure?

PROPOSAL ANALYSIS

The Project Proposal is analyzed and decision about the project is taken. The loans and advance department is responsible for the analysis. After preliminary appraisal of the loan project the final approval is obtain from the manager. If the loan amount crosses a certain amount (no found), managers send the loan project to the principal office for final approval. The experts in principal office find out different projected ratios and developed and understanding about the potentiality of the project. Bank evaluates a loan proposal by considering few predetermined variables. These are:

- Safety
- Liquidity
- Profitability
- Security
- Purpose of the loans
- Sources of repayment
- Diversification of risk etc.

The most important measure of appraising a loan proposal is safety of proposal. Safety is measured by the security offered by the borrower and repaying capacity of the borrower. The attitude of the borrower is also important consideration. Liquidity means the inflow of cash into the project in course of its operation. The profit is the blood of any commercial institution. Before approval of any loan project the bank authority has to ensure that the proposed project will be profitable venture. Profitability is assessed from the projected Profit and Loss Statement. The security is the only tangible asset remains with the banker. Securing of collateral is the only

weapon to recover the loan amount. So bank has to see that the collateral is easy to sale and sufficient to recover the loan amount. Bank can not sanction loan by only depending on collateral.

The sources of the payment of the project should be a feasible one. During sanctioning any loan Bank has to be attentive about diversification of risk. All money must not be disbursed amongst a small number of people. In addition any project must be established for the national interest growth.

COLLATERAL EVALUATION:

Janata Bank Ltd. is very cautious about valuation of the collateral. The bank officials simultaneously evaluate the collateral of the party offered by the private firm. The valuation of the collateral increases the accuracy of its value estimated. Three types of value of the collateral are assumed:

- Current market price
- Distressed price
- Price after five years

The legal officers of the bank check the document ascertain their impurity.

FINAL DECISION ABOUT THE PROJECT

If the loan decision remains with the branch level, that branch sanctions the loan and if the approving authority is Head Office then the decision comes to the branch by telex or fax.

PROPER SUPERVISION OF THE PROJECT

If such provision is kept in the sanction contracts, the Janta Bank Ltd. officials go to the project area to observe how the loan is utilized. If no such clause to supervise the loan is added, even then the bank can see the performance of the project.

DOCUMENTATION OF THE LOAN

These are the most frequently used and common documents of above mentioned charged and for other formalities for sanctioning the loan:

- Demand Promissory Note: Here the borrower promises to pay the loan as and when demanded by the bank to repay the loan.
- Letter of Arrangement: Here the written amount of the loan sanctioned to the borrower is specified.
- Letter of Continuity: It is used to take continuous facilities as providing continuous securities.
- Letter of Hypothecation: It is the written document of the goods hypothecated thus to put in case of need.
- Stock Report: This report is used for SOD and CC. In this report information about the quality and quantity of goods hypothecated have furnished.
- Personal guarantee: It is the additional confirmation of the borrower to repay.
- Guarantee of the Directors of the company.
- Resolution of the board of directors: It is used to borrow the fund to execute documents and complete other documents.
- Letter of disclaimer: By this letter, the borrower withdraws his all claim on the property/mortgaged.
- Letter of Acceptance: Letter indicating the acceptance of the sanction proposal by the borrower.
- Letter of Pledge: It is the written document of the goods pledge thus the legality of holding the goods.
- Letter of Disbursement: This is the document through which the payment of sanctioned loan indicates.
- Letter of partnership: In case of partnership firm, the partnership deeds are to be provided.
- Letter of Installment: The amount of installment that is to be paid at certain intervals.
- Tax Paying Certificate.
- Any document if described, as essential in the sanctioned advice sanctioned by the Head Office.

CREATION OF CHARGES FOR SECURING LOAN

For the safety of loan, Janata Bank Ltd. requires security from the loaner so that it can recover the loan by selling security if borrower fails to repay. Creation of a charge means making it available as a cover for an advance. The method of charging should be legal, perfect complete.

Importance of charging securities is as:

- Protection of interest.
- Ensuring the recovery of the money lent.
- Provision against unexpected change.
- Commitment of the borrower.

Securities are of two types:

- **Primary Security**-Security deposited by the borrower himself to cover the loan such as FDR, cash, PSS, PSP, easily cashable items.
- **b) Collateral Security**-Any type of security on which the creditor has personal right of action



Recovery Performance of Janata Bank Ltd.

PROGRAMS FOR LOAN RECOVERY

When Janata Bank Ltd. sanctions loans and advances to its customers, they clearly state the repayment pattern in the loan agreement. But some credit holders do not pay their credit in due period. The nationalized and private sector commercial banks have to face this sort of problems. This situation is, especially severe in Janata Bank Ltd. To overcome the problem of overdue loan, the bank need take particular loan recovery program.

RECOVERY PROGRAMS TO BE TAKEN BY JANATA BANK LTD.

- To establish credit supervision and monitoring cell in the bank
- To re-structure the loan sanctioning and distributing policy of the bank
- To sanction loans and advances against sufficient securities as best as possible
- to give more powers to the branch manager in credit management decision making process
- To offer a package of incentives to the sound borrowers
- To give more emphasis on short term loans and advances
- To impose restrictions on loans and advances for sick industries
- To take legal actions quickly against unsound borrowers as best as possible within the period specified by the law of limitations.

PROBLEMS IN LOAN RECOVERY

There are a lot of reasons for which the loan recovery of the bank is very defective. In most cases, problems may be raised from sanctioning procedures of loan, investigation of the project, and investigation of the loans etc. that is, the problem in loan recovery proves the outcomes of

the default process in loan disbursement. The main reasons of poor loan recovery are categorized in four broad types as follow:

- **Problems created by economic environment**

The following problems arise from the effect of economic environment:

1. *Changing in the management pattern*: Changing of management patterns may delay the recover of mature loan.
2. *Changing in industrial patterns*: The nationalized banks sometimes sanction loan to the losing concern for further improvement of the respective sector, but in most cases, they fail to achieve progress.
3. *Operation of open market economy*: In our country mainly industries become sick and also close their business on account of emerging of open market economy. The cost of production is high and the quality of goods is not of required of standard. As a result, they become the losing concerns and the amount of bad loan increases.
4. *Rapid expansion of business*: There are many companies which expand their business rapidly, but the expansion is for short time. In the long run, the amount of classified loan increases.

- **Problems created by government**

The following problems are arisen by the government:

- *External pressure*: Janata Bank Ltd. has also faced many problems in the loan recovery process as a part of continuous pressure from various interested groups.
- *Loan to government organization*: Janata Bank Ltd. is bound to sanction loan to government organization, though these are losing concern. For this reason, banks faced problems in loan recovery.
- *Legal problems*: Existing rules and regulations are insufficient to cover the legal aspects of loan recovery. As a result, defaulters can get release easily from all charges against them.
- Frequent changes in government policies in regard to recovery of loan.

- **Problems created by the bank:**

The following problems are created by the banks:

- *Lack of analysis of business risk:* Before lending, Janata Bank Ltd. does not properly analyze the business risk of the borrowers and the bank cannot forecast whether the business will succeed or fail. If it fails to run well, the loan becomes classified.
- *Lack of proper valuation of security or mortgage property:* In most cases, bank fails to determine the value of security against the loan. As a result, if the loan becomes classified, the bank cannot recover its loan through the sale of mortgage.

- **Other general causes of poor loan recovery:**

Apart from the specific reasons creating problems to recoup loan, there exists some other general causes which have a great impact on creating the problems which are faced by the Janata Bank Ltd. under study in the loan recovery process. These are:

- Early sanction and disbursement of loan to the borrowers without proper inspection of the project by the bank on account of pressure from lobbying group.
- Lack evaluation of technical and economic feasibility of the program.
- Delay in disbursement of credit.
- Credit is not allowed to actual entrepreneurs.
- Lack of proper supervision.
- Illiteracy of borrowers.
- Negative attitude of borrowers to repay the loan.
- Deterioration of the value system of the borrowers.
- Money borrowers use their loan-money other than specified project, i.e., if the loan is sanctioned for industrial purpose; they use the money in house building or purchase of land for their own purpose.
- Sometimes borrowers invest their money outside the country. Many borrowers transfer loan money to abroad where they deposited this money in their own account or spent some other purpose.

- Sometimes local borrowers are found to be so much compelled to grant them loan without proper study due to some unexpected reasons. Since these borrowers are capable of getting loan by exercising their influence, they can also escape the repayment liability.
- Problems responsible for non-implementation and delayed implementation of project for which the entrepreneurs of the project cannot repay the loan. The causes of failure may be:
 - Failure to ascertain the economic availability of the projects
 - Time lag between approval and sanctioning of the projects
 - Import of machinery and raw materials both are the problems of paucity of foreign exchange and procedures of licensing.

All of these reasons discussed above are general reasons for problems loan recovery of Janata Bank Ltd. Besides these, there are some specific reasons for loan recovery problems faced continuously by Janata Bank Ltd. They are as:

- Loans are given under fictitious names and enterprise
- Loans are given without sufficient securities
- Approval of the loans in excess of the branch manager's power
- Improper monitoring and supervision of credit
- Political misuse if loan programs operated by the public sector banks
- Lack of timely action against willful defaulter
- Loans are sometimes for economically unsound project.

Problems in loan recovery are the outcome of the default on loans disbursements in the earlier period.



Classified Loans & Bank's Performance

INTRODUCTION

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

SIGNS FOR CLASSIFICATION

First and foremost requirement for any and all credit managers is to identify a problem credit in its earlier stages by recognizing the signs of deterioration. Such signs include but not limited to the following:

- Non payment of interest or principal or both on due dates or past dues beyond a reasonable period or recurring past dues.
- In case of Overdraft no movement in the account beyond a reasonable period.
- Deterioration in financial condition of the client, as gathered from client's latest financial statement.
- A shortfall in collateral coverage, particularly if the collateral was a key factor in the decision-making.
- Death or withdraw of key-owners or management personnel.
- Company filing for bankruptcy or voluntary dissolution.
- Adverse market report about the company itself or its principal owners.

LOAN CLASSIFICATION-GUIDELINES FROM BANGLADESH BANK

Classification of overdue loans and advances opened a new era in the credit management of commercial banks in Bangladesh. Before 1989 no specific guidelines were followed by the commercial banks for this purpose. In 1989, Bangladesh Bank issued BCD circular No.34/1989 stating specific rules and conditions of loan classification.

After that each schedule banks except BKB, RAKUB, and BSB would be responsible for its own loan classification according to the guidelines are presented in the following table:

TABLE: LOAN CLASSIFICATION SYSTEM*

Length of overdue	Status of classification	Rate of provision	Frequency of classification
All loans except Agricultural loans:		Annual provision	
Less than 1 year	Unclassified	1%	
Loans overdue for 1 year but less than 3 years	Substandard	10%	
Loans overdue for 3 years but less than 5 years	Doubtful	50%	
Loans overdue for 5 years or more	Bad/loss	100%	
For agricultural loan: Loans not overdue for 5 years or more	Classified, substandard, doubtful	5%	
Loans overdue for 5 years or more	Bad/ loss	100%	

*Source: BCD Circular no. 1989

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

Table: schedule of loan classification and provision program*

a. types of classification	1st stage	2nd stage	3rd stage	4th stage	5th stage
	Period overdue	Period overdue	Period overdue	Period overdue	Period overdue
Unclassified	Less than 18 months	Less than 12 months	Less than 19 months	Less than 6 months	Less than 3 months
Substandard	18 months or more but less than 36 months	12 months or more but less than 24 months	9 months or more but less than 24 months	6 months or more but less than 12 months	3 months or more but less than 6 months
Doubtful	36 months or more but less than 48 months	24 months or more but less than 36 months	12 months or more but less than 24 months	9 months or more but less than 12 months	3 months or more but less than 6 months
Bad	More than 48 months	36 months or more	36 months or more	24 months or more	12 months or more
Unclassified	1%	1%	1%	1%	1%
Substandard	10%	10%	15%	15%	20%
Doubtful	50%	50%	50%	50%	50%
Bad	100%	100%	100%	100%	100%
c. period of classification	Annual basis	Half yearly basis	Half yearly basis	Quarterly basis	Quarterly basis

*Source: BCD circular no. 20 of 27/12/1994

For loan classification Bangladesh Bank also issues circular time to time after 27/12/1994 like BPRD circular no 16,9,2,9 and 17 of 6/12/1998, 14/5/2001, 15/3/2005, 25/8/2005, and 5/07/2006 respectively. Some of these are as follows:

Table: status, type and definition of classification*

Status	loan type	Definition of status
Unclassified	all current loan	all current loans with required eligible security
<p>Sub standard (SS)</p> <p>When degree of risk for non-payable is high but there is reasonable respect that the loan condition can be improved</p>	<p>Continuous/demand/ term loan (less than 5 years)</p> <p>more than 5 years</p> <p>short term agri. credit and micro credit</p>	<p>overdue is more than 3 months but less than 6 months if default amount of installment is equal to installment payable in 6 months</p> <p>If default amount of installment is equal to installments payable in 12 months.</p> <p>overdue is more than 12 months but less than 36 months</p>
<p>Doubtful (DF)</p> <p>When chance of recovery is uncertain</p>	<p>Continuous and demand</p> <p>Term loan less than 5 years</p> <p>More than 5 years</p> <p>Short term agri. credit and micro credit</p>	<p>overdue is more than 6 months but less than 9 months</p> <p>If default amount of installment is equal to installments payable in 12 months.</p> <p>If default amount of installment is equal to installments payable in 12 to 18 months.</p> <p>Overdue is more than 36 months but less than 60 months.</p>
<p>Bad/ loss (BL)</p> <p>No security held, borrower not traceable, time barred loans, no</p>	<p>Continuous and demand</p>	<p>overdue is more than 12 months</p>

hope of recovery	Term loan (up to 5 years)	If default amount of installment is equal to installment payable in 18 months.
	more than 5 years	If default amount of installment is equal to installment payable in 24 months.
	Short term agri. credit and micro credit	overdue is more than 60 months

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

Table: loan classification system, 2006*

Standard:	Rate
General provision maintained on unclassified Loans and Advances (all other credit)	1%
General provision maintained on House Finance (HF) and Loan for Professional (LP)	2%
General provision maintained on other than (HF) & (LP)	5%
General provision maintained on Short Term Agriculture Credit & Micro Credit	5%
General provision maintained on Small Enterprise financing	2%
Special Mention Account:	
Special Mention account Loans & Advances	5%

Classified loan and advances

Substandard Loans & Advances	20%
Doubtful Loans & Advances	50%
Bad /Loss Loans & Advances	100%

*Source: Bangladesh Bank, BRPD Circular No. 5 of 2006

Table: loan classification system (international standard)

Length of overdue	Status of classification	Rate of provision	Frequency of classification
Less than 3 months	Unclassified	1%-5%	
Loans overdue for 3 months but less than 6 months	Sub standard (SS)	10%-25%	
Loans overdue for 6 months but less than 9 months	Doubtful (DF)	50%-75%	
Loans overdue for 9 months or more	Bad/ loss	100%	

*Source: Studies in Bangladesh Banking, BIBM,

IMPACT OF PROVISION FOR LOAN ON BANK'S PROFIT

Provisioning by the bank has not been isolated action, but represents one component in an ongoing set of negotiations and relationships between borrowers and the banks, while the borrowers wish to minimize their servicing obligations without damaging their prospect of future market access, the lending bank wish to maximize their receipts. Such maximization may involve agreeing to terms which are not so stringent as to encourage borrowers to opt for all out

default. Provisioning has the effect of bringing the bank's actual balance sheet more in line with the market perception of what they should look alike.

Bangladesh Bank provides specific guidelines for loan provisioning and bases for calculating such provisions. Provisions for unclassified as well as classified loan are as follows:

Table: rates loan provision

Unclassified loan	Provision	Classified	Provision
Small enterprise financing	2%	Substandard	20%
Consumer financing	2%	Doubtful	560%
Except SEF, CF and SMA	1%	Bad or loss	1000%
Special account	Mention 5%		

Bank and financial sector may be termed as the vital complementary power of the economy. But the uncertainty in respect to effectiveness of this sector in the economy continuously increases over time. Now a days it open secret that JBL is under direct control of the Finance Ministry. Credit management of JBL was so meaningless and corrupted as it is now assumed that more than Tk 30000 crore have become unrealizable within the last 10 years.



Guidelines for Credit Management

INTRODUCTION

Commercial banks of Bangladesh are incorporated under Companies Act 1994 and Bank Companies Act 1991. But none of this act clearly mentions guidelines for managing credit in commercial banks. Central bank is the controller of money market in any country. As central bank, Bangladesh Bank controls money market in our country. Bangladesh bank, time to time, issues some guidelines and regulations for operation of a banking concern. These guidelines are general in nature. Besides these, every commercial bank sets credit guidelines for these operations. Whatever be the guidelines, the aim of it is to reduce the total amount of unsound credit as well as improve the overall performance of the banks.

THE COMPANIES ACT 1991

According to the Bank Companies Act 1991, the following rules must be followed by any commercial bank in our country:

Section	Contents
22(1)(a)	Any bank other than new or specialized bank will not declare dividend on its share until the bank as written off its previous losses preliminary expenses and other deferred revenue expenses.
22(2)(c)	Bank will declare dividend whatever be stated elsewhere if and only if bank will take proper steps for their bad and doubtful credit in accordance with the satisfaction of their auditors.

27	Discuss on some limitations and restrictions on the distribution of loans and advances Without prior approval of the Bangladesh Bank, commercial banks will not extend its credit policy any way.
29	
37	Bangladesh Bank can disclose collectively or in any other form the information about the overdue loans and advances which fall due to the BB that those information are required to be disclosed only in public interests.

THE INTERNATIONAL ACCOUNTING STANDARDS (IAS) - 30

In our country Institute of Chartered Accountants of Bangladesh (ICAB) has so far adopted 21 IASs out of 40 issued so far. The original IAS 30 was issued in January 1995. IAS 30 is a Generally Accepted Accounting Standard intended for application in the financial statements of the bank and similar financial institutions. It is a special purpose; disclosure based accounting standard catering to the need for proper presentation of disclosures in the financial statements of bank. It enumerates the accounting principles and disclosure requirements of published financial statements of banking companies. It thereby provides definitive guidance to corporate management with regard to the preparation and to independent auditors for audit of financial information of banks.

Bangladesh Bank issued a circular entitled Amendment of First Scheduled Forms of the Bank Companies Act 1991, (BRPD Circular No. 03 dated 18 April 2000). Under this circular, newly amended forms have been made mandatory for all concerned banks and financial institutions since 30 March 2000 in Bangladesh. The new forms have been introduced with a view to ensuring the discipline in the banking sector, to minimize the unforeseeable risk, to provide true, relevant and reliable information to the depositors and shareholders and to meet the financial disclosures in compliance with the International Standards. However, the financial institutions should be easy to understand, informative and transparent. The new forms will reflect all these aspects in reporting financial information.

The features of the newly introduced formats of IAS 30 are as follows:

- To provide vertical form of financial statements. This form complies with the international accounting standards though the heads of accounts are same as those of the previous forms;
- To disclose the assets and liabilities according to their relative liquidity;
- To bring more transparency in reporting financial position of banks and financial institutions, it is required to disclose gross loans and advances and bills discounted and purchased after charging the necessary provisions thereon. The new format of balance sheet provides the relevant policies for this practice;
- To disclose the required provisions on securities investments under the new system;
- To disclose the loan loss provisions on the profit and loss account separately and then show the earning per share (EPS) of the banks;
- To show the contingent and contra items (i.e. off balance sheet items) on separate statement and enclose with the balance sheet;
- To make comparison between the performance of two financial years, the immediate previous year's financial statements to be furnished along with the current year's financial statements in the annual report; and
- To furnish one additional statements viz. cash flow statements as per international accounting standards.

GUIDELINES FOLLOWED BY JANATA BANK LTD.

Janata Bank Ltd. usually prepares its financial statements as per IAS 30 and forms prescribed by the bank Companies Act 1991 after 2000. Before 2000 they usually follow the old format for preparing statements. JBL violates the regulations prescribed in Bank Companies Act 1991.

Generally public bank's performance is worse than of private banks. Public banks specially, Janata Bank Ltd. shows in its profit and loss account but it is found that if they make actual provisions on their unsound loan they will incur loss.

Janata Bank Ltd. is concerned about the unsound credit. They started to maintain credit risk management division for managing risk of default lo



Credit Rating of Janata Bank Ltd.

INTRODUCTION

Bangladesh Bank has made mandatory from January 2007 for all banks to have themselves credit rated by a credit rated agency vide BRPD Circular no. 6 of July 2006 for all banks. The first rating by an external independent rating agency will have to be completed by June 2007. Accordingly Janata Bank has appointed Credit Rating Agency of Bangladesh (CRAB) to conduct Credit Rating of the bank which completed invariably by 30th June 2007. With this end and view a memorandum of understanding has been signed in between Janata Bank and CRAB on 14th May 2007.

CREDIT RATING

Credit Rating of Banks provides opinion on the types of risks associated with the relative ability of a bank for timely servicing its debts and other obligations. The rating exercise is done through a quantitative cum qualitative approach following a structured methodology.

- **FACTORS OF CREDIT RATING**

The major factors considered in rating analysis are as follows:

A. Quantitative Factors:

- i. Capital adequacy
- ii. Assets Quality
- iii. Funding & Leverage
- iv. Liquidity Requirements
- v. Earning Quality
- vi. Market Sensitivity

B. Qualitative Factors

i.Owership

ii.Management Quality

iii.Risk Management

iv.Compliance with the Statutory

v.Accounting Quality

vi.Size & Market Pressure

vii. Govt. Support etc.



Findings and Analysis

Findings and analysis

Every bank has its own credit procedure. Bank under study possesses a standard credit procedure. As the objective of my study is to make a comment on the credit management of Janata Bank Ltd, I try my best to collect data for the study and find out the reality. Based on the data generated during my study period I will sum up my findings here and I think this will help me to achieve my objectives.

- If we look at the historical background of Janata Bank, we see that, the objective of JBL is to earn profit as well as to improve the economic welfare of the people as a whole.
- Janata Bank Ltd. has a significant role in long term project financing in both agriculture and industrial sectors. Again JBL has a deep concern for rural farmers.
- Private sector usually concentrates in the urban areas where as public sector i.e. JBL spread their banking network all over the world.
- With a view to implementing government policies, JBL has been maintaining its position in extending credit to government bodies, sector corporations and private enterprises.
- Though bank required both quantitative and qualitative analysis but for big loans bank emphasizes on the lending risk analysis (LRA). But LRA is not a perfect measure of credit analysis. Because businessmen in our society are usually tempted to take resort of window- dressing that means accounts are so manipulated that the vital facts are concealed and facts presented are superficial. So banks have to go through both quantitative and qualitative analysis.
- According to the standard and bank's credit procedure, credit operation is started from the customer application to the branch for the loan. But in most cases, many customers go directly to the directors of the bank and directors send them to the branch offices

with his/her reference. In these cases, proper appraisal is not possible as directors the most powerful persons and bank management must give priority towards the decision of the directors. This phenomenon is very common in the bank which hampers the spontaneous procedure of credit appraisal.

- Bangladesh Bank monitors all the policies of all the private and nationalized banks of the country. According to the Bangladesh Bank's strategy, all banks must possess the standard policies which are designed by the central bank. Janata Bank Ltd. also possesses a standard credit proposal form. In that form all necessary information are required to fill up. But in practice credit officers do not fill up the proposal form properly. Most of the cases, they use assumption rather than exact figure. This practice might end up with bad or classified one.
- A standard policy starts from the customer's direct application for the loan in the branch office. But it's a common phenomenon that most of the customers directly contact with Head office and Head office choose the branch offices to disburse the loan. It hampers the normal procedure. Branches always stay under pressure when they get order for disbursement from Head office. When branches get order from the head office, then appraisal system loses its formal track. So Head office should not send any order to the branch office without prior appraisal.
- Every bank has its own budget and plan regarding loan portfolio. This loan portfolio must be diversified so that bank could diversify its risk. A proper and preplanned portfolio can eliminate the risk of huge classified loan or bad loans as this aspect is very much sensitive toward many external and internal factors. The bank under study i.e. Janata Bank Ltd. does not have any proper guide line where to invest; moreover they do not do any future plan to maintain a well structured portfolio to decrease the possibility of classified loan. This type of practice is working as an obstacle in smooth credit disbursement as well as in credit appraisal system.
- Most of the loans that JBL distributes are as cash credit hypothecation and JBL emphasizes less on demand loan.
- JBL distribute loans without sufficient security in some cases. This is violation of the Bangladesh bank order.

- In many cases bank face this problem because bank's credit officer fails to value collateral property. Proper valuation means collateral will exactly cover the risk of bad loan. Officials must do it with due care.
- The recovery performance of JBL is not in a satisfactory level at all and the position of those in that respect deteriorated heavily during last two phases. The recovery performance in agriculture is worse than in other sectors. On the other hand, as private sector banks distribute more loans on short term basis and relatively better than public sector. But if we compare it from the efficiency point, then it is clear that they are not still efficient in credit management as they are unable to recover half of their distributed loan in different sectors.
- During first phase 15.71% of the total loan of JBL became classified and this classified loan came down to 23% in the second phase.
- JBL does not keep enough provisions against classified loans and advances.
- Private sector banks are relatively efficient in processing and executing legal actions against defaulters for their nonpayment of loans and advances in due time that of public sector bank.
- The credit management of JBL are not fully conformity with the guidelines prescribed in the bank companies Act 1991 and International Accounting Standard-30(IAS-30)



Conclusion & Recommendation

Conclusion and recommendation

I have discussed so far about the different aspects of credit management Janata Bank Limited. For my report, I have selected Janata bank Ltd. JBL plays an important role in the banking sector as well as in our economy. The success of a bank depends largely on the efficient credit management. A successful credit management is not only need for a bank's own performance but also it is needed for the smooth development of an economy. In any strategy of economic development, therefore, it is essential to emphasize the evaluation of a sound and well integrated credit management system from the view point of both resources mobilization and efficient allocation of funds. In conclusion it can be suggested a number of recommendations in order to overcome the problems and how to remove the causes of problem in credit management.

Since this an exploratory research, hence the recommendation given are not decisions rather they are only suggestions to improve the default rate. The recommendations are made on the basis of survey findings.

1. Central Bank should take proper actions for ensuring equivalent distribution of loans and advances.
2. Lending policies in our country should be geared to growth potential rather than being determined by the pre-existing collateral.
3. Changes in lending policies will not suffice the purposes unless it is followed by a change in the attitude and out look of both the borrowers and the bankers.

4. Improvement of credit management depends on the development of relevant, adequate, proper and reliable data base at the public sector banks as well as private sector banks in Bangladesh.

5. Publishing the names of defaulter as well as good and regular payers in various dailies and granting various sorts of facilities to good borrowers will create a moral persuasion on the borrowers. This may decrease the number of defaulters and the volume of large outstanding loan amounts as well.

6. Pressure from outsider and influence extorted by borrowers are also a great impediment in the smooth functioning of loan recovery process. The role of government in this case is the most important factor required to solve these sorts of problem.

7. More and more competent personnel must be recruited to reduce the weakness of credit management. Competent executives will ensure the reduction of wrong appraisal and evaluation of projects.

8. Prompt legal actions be taken against willful loan defaulters

9. The new entrepreneurs should be encouraged in disturbing loans and those who have the records of regular payment, should be given preference.

10. Steps should be taken so that guarantors cannot avoid their responsibility.

11. It is observed that the defaulters generally get various sorts of exemptions as declared by the government from time to time. Government must not show any kind of mercy to the defaulters in any way which may encourage the default culture. This type of action may discourse the borrowers to become willful defaulters.

12. The existing huge amount of classified loans demand for special and corrective attention for example:

- By obtaining suitable reduction on amount.
- Additional security.
- More complete financial data concerning the obligor's condition or
- Other such action as the specific circumstances may require.

13. The attempt to encourage banks to require borrowers comply with banking laws and regulations and clear up industrial properties prior to granting a loan.

14. JBL should follow some straight ward mechanical procedures in assessing the risk of a borrower.

15. The formulation of a sound credit policy in the possibility of default loans.

16. The formulation of a sound credit policy in the banking sector as a whole has to take into account all these factors and each bank has to attempt to work out for itself what it is capable of doing so as best as possible.



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