Internship Report

on

Credit Management

&

Performance Analysis

Of

Jamuna Bank Limited

Dhanmondi Branch

Submitted To

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Executives'' kindness and generosity has help me overcome all the obstacles that I faced during my internship. Moreover, I would like to thank all my colleagues of JBL, Dhanmondi Branch for providing me the necessary support whenever required. Without their contribution, it would not have been possible for me to complete my internship successfully.

Executive Summary

This report has originated as a result of my internship which I have pursued as a requirement of the M.B.A Program of BRAC Business School, BRAC University. This report has been complete based on my three months internship program at Jamuna Bank Limited, Dhanmondi Branch.

The objective of this study is to analyze the credit management and performance analysis of Jamuna Bank Limited, Dhanmondi branch regarding credit. To prepare this report this primary and secondary sources of data have been used. The first Section of this report consists of an introductory part which has been developed for the proper execution of the entire report . The second part consists of descriptions of the knowledge and working experience gained during my internship at JBL. The remaining part consists of analysis, findings, recommendation and conclusion.

JBL is one of the leading private banks in Bangladesh. To serve the nation Jamuna Bank performs certain activities for their clients such as general banking, giving loans and advances, capital market operations etc. The bank collects deposits from the public and provides it to other businesses or individuals as loans. The bank pays interest to deposit holders and takes interest from borrowers. JBL measures all risk components before sanctioning a loan. When all the formalities are completed, the respective officer disburses the loan. After loan disbursement, it is the duty of the bank to recover the disbursed loan. This report is based on actual information andworking procedures practiced at JBL. The overall credit management of JBL has been analyzed to give a clear about the policies of JBL and the implementation of those policies by various mechanism and procedures. Alongside this, different financial reports were carried out to evaluate performance of various aspects of the credit department of JBL and the results have been thoroughly analyzed through various methods.

In conclusion, it can be said that honestly, reliability, thoroughness and willingness to be open to new ideas and new ways of meeting customer needs are most important factors for improvement and success of JBL.

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1. Introduction

All over the world the dimension of Banking has been changing rapidly due to deregulation, technological innovation and globalization. Now Bank must compete in the market place both with local institution as well as foreign ones. To survive in this competitive Banking world Banks require developing appropriate financial structure, expertise and experience. In Bangladesh more than 90% financial transactions took place through banking sector, which focus the dependency of the country's economy on banks. So to enhance the growth rate, banks should continuously review and compare their performance with its competitors to build sound Banking institution and to get their final goal that is profit.

Jamuna Bank Ltd. (JBL) is one of the leading privet commercial banks in Bangladesh. All the schedules activities according to Bangladesh Bank are observed by JBL. It also provides technological based services like online banking, ATM etc. Providing loans and advances is a major function of the commercial banks and JBL is not different. The main source of profit of JBL is credit functions. So the organization's top management should enhance their awareness on credit sector by analyzing credit management and evaluation performance.

1.1 Objective

- To understand the credit operation
- To analysis the credit management and its performance.
- To find out the performance of the credit department

1.2 Scope

The report is an attempt to state the everyday Banking operation of Jamuna Bank Ltd. (JBL) in regard to allocation efficiency and operational efficiency. The scope of the study is to evaluate the performance of JBL in regard to third generation bank.

1.3 Methodology

The study requires a systematic procedure from selection of the topic to final report preparation. To perform the study the data sources are to be identified and collected, they are to be classified, analyzed, interpreted and presented in a systematic Mannes and key points are to be found out. The overall process of methodology is given in the following page in a form of flow chart that has been followed in the study.

A. Selection the topic

The topic of the study was assigned by our supervisor. Before assigning the topic it was discussed with me so that a well-organized internship report can be prepared.

B. Identifying data sources

Essential data sources both primary and secondary are identified which will be needed to complete and work out to study. To meet up the need of data primary data are used and study also requires interviewing the official and staffs were necessary. The report also required secondary data.

Information collected to furnish this report is both from primary and secondary sources.

The primary sources are:

- Face to face conversation with the executives.
- Practical desk work.
- Relevant files study as provided by the concerned executives.

Some of the secondary sources are:

- Different circular issued by the head office Bangladesh Bank.
- Annual reports of Jamuna Bank Limited.
- Publications obtained from library of Jamuna Bank and from web site of the Bank.

2. Banks Profile

Jamuna Bank Limited (JBL) is a third generation commercial bank, which started its business on 3 June 2001, under the Companies Act, 1994 with the view of - Remaining with time, Managing change , Developing human capital and Creating true customer’s value.

The Bank provides all types of support to trade, commerce, industry and overall business of the country. JBL's finances are also available for the entrepreneurs to set up promising new ventures and BMRE of existing industrial units. Jamuna Bank Ltd., the only Bengali named 3rd generation private commercial bank, was established by a group of local entrepreneurs who are well reputed in the field of trade, commerce, industry and business of the country.

The Bank offers both conventional and Islamic banking through designated branches. The Bank is being managed and operated by a group of highly educated and professional team with diversified experience in finance and banking. The Management of the bank constantly focuses on understanding and anticipating customers' needs. Since the need of customers is changing day by day with the changes of time, the bank endeavors its best to device strategies and introduce new products to cope with the change. Jamuna Bank Ltd. has already achieved tremendous progress within its past 10 years of operation. The bank has already built up reputation as one of quality service providers of the country.

Name of the Company	***Jamuna Bank Limited***
Incorporation Date	***June 3, 2001***
Line of Business	***Banking***
Legal Status	***Public Limited Company***
Registered Office	**Hadi Mansion, 2 ,Dilkusha C/A Dhaka 1000**
Chairmen	**Mr. Shaheen Mahmud**
Managing Director	**Mr. ShafiqulAlam**
Company Secretary	***MahamudShahjahan***
Authorized Capital	***10,000***
Paid up Capital	***5,161***
Year of Initial public offering	***2005***
Stock Exchange Listing	***2006***
Corporate Slogan	***Your Partner for Growth***
Website	***www.jamunabankbd.com***

2.1 Vision &Mission

Vision:

To become a leading banking institution
And
To play a pivotal role in the development of the country

Mission

The Bank is committed to satisfying diverse needs of its customers through an array of products at a competitive price by using appropriate technology and providing timely service so that a sustainable growth, reasonable return and contribution to the development of the country can be ensured with a motivated and professional work-force.

2.2 Product and services

Product-baskets of Jamuna Bank Ltd.

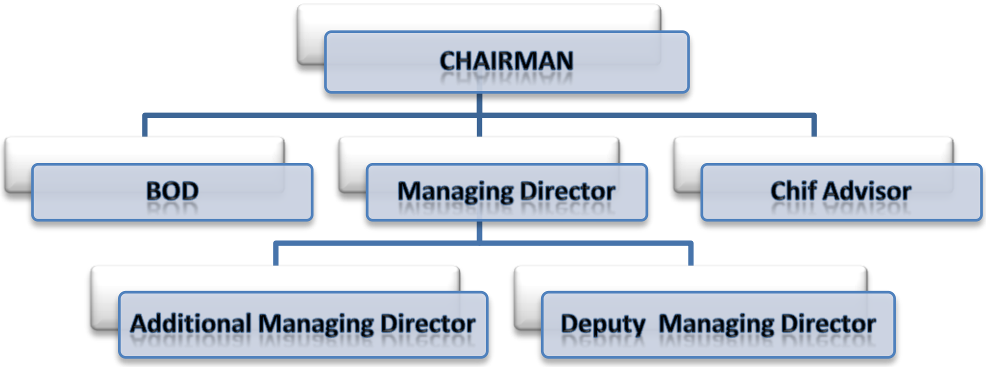
Founded Service	***Non-founded Services***	***Found generating Services***	***Communism Based Services***
Cash credit	*Guarantee*	*Current Deposit*	*Domestic Bill collection*
Over Draft(OD)	*Acceptance*	*Saving Deposit*	*Foreign Bill Purchase*
Time Loan		*Fixed Deposit*	*Remittance*
Term Loan		*Short term deposit*	*Pay order*
Export credit			*Foreign Exchange Transaction*
Real estate loans			*Demand draft*
Consumer credit service			*Foreign Bill purchase*
Bills under letter of credit			
Loan against trust receipt			

2.3 Financial Highlites

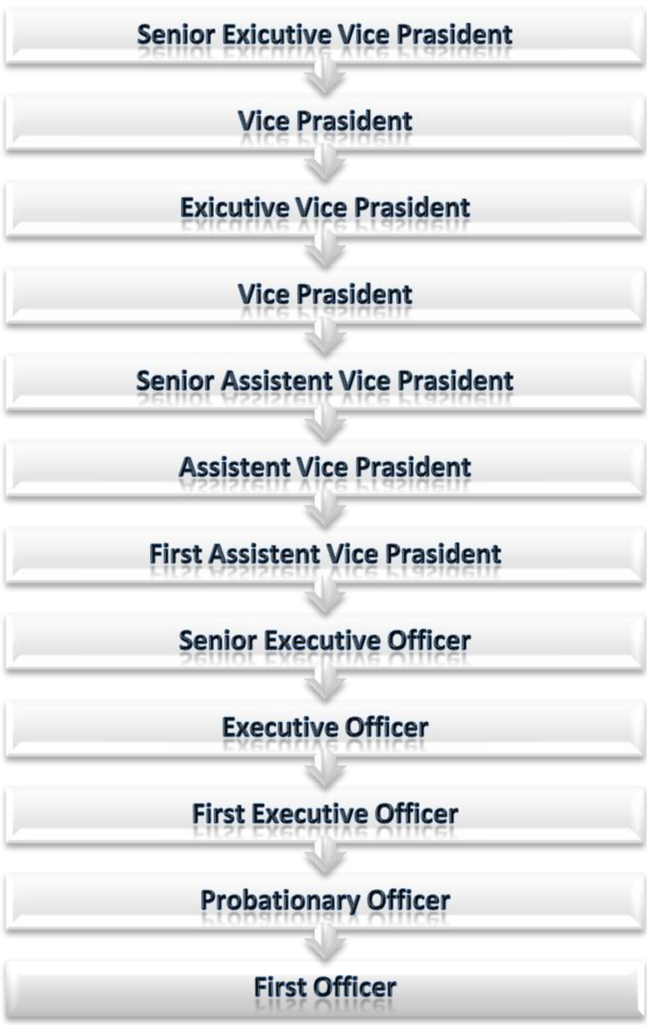
Information	**2013**	**2012**
Gross revenue	Tk.14,387.85 million	Tk.13,072.60 Million
Operating Income	Tk.5,635.33 Million	Tk.5,285.12 Million
Profit Before Tax	Tk.2284.89 Million	Tk.2,080.52 Million
Profit after Tax	Tk.1,135.19 Million	Tk.1,042.05 Million
Total Capital	Tk.9,259.8 Million	Tk.8,605.28 Million
Share Holder Equity	**Tk.8,880.94 Million**	**Tk.8,324.83 Million**

2.4 Management Organ grams

Top Level Management



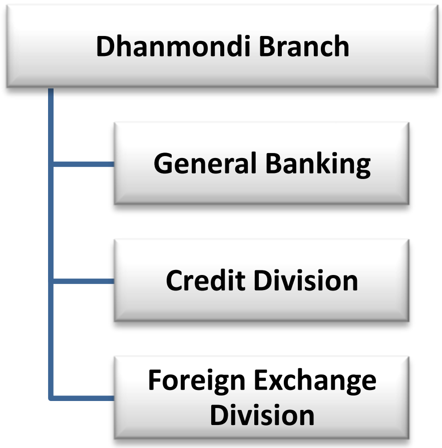
Mid-Level Management



2.5 Branch Management

Dhanmondi Branch

ShakilBodruddoza Shams
Vice President & Head of Branch
Jamuna Bank Limited



Organ-Gram of Dhanmondi Branch Based On Division

Among these three divisions there are many activities have been performed. The name of the activity is

1. *Accounts*
2. *Clearing*
3. *FDR*
4. *Export*
5. *Import*
6. *Credit*
7. *Front Desk*
8. *Other Service*

Number of Employees Working in JBL, DHN Branch

SL.	*Designation*	*Number of Employer*
01.	VP & Head of the Branch	1
02.	FAVP &Operation Manager	1
03.	FAVP & In charge	3
04.	FAVP	2
05.	Senior Executive Officer	5
06.	Executive Officer	3
07.	First Executive Officer	7
08.	Probationary Officer	1
09.	Officer General	3
10.	First Officer	1
11.	Assistant Officer	9
	Total	**36**

3. Credit Management

Credit / Loan constitute the major revenue earning asset of a Bank. Banks lend mostly depositors money.The fundamental nature of Credit is the confidence of the lender in the ability and willingness of the borrowers to repay the loan as per agreed stipulations. Sound lending is the process of evaluating credit risk and the principles of sound lending are

Safety	Lending function will be exercised only when it is safe and that the risk factor is adequately mitigated and covered.
Liquidity	While lending, adequate care has to be taken so that the liquidity is not compromised
Security	Since risk factors are involved, security coverage has to be taken before a particular lending.
Yield	From the commercial point of view, all loans and advances must have sufficient yield or return.
Diversity	The loan portfolio should be diverse and concentration of lending in one particular sector should be avoided.
Productive purpose	Lending function will only be used for productive purpose or sector. End use of the fund to be ensured.
National / Social interest	While lending, the national and social aspects must be taken care of. No loan is to be given for a purpose which is detrimental to the society.

3.1 Types of Credit Facilities

Commercial banks make advances in different forms. All types of credit facilities can be broadly classified into two groups:

A. ***Funded credit facility***
B. ***Non-funded credit facility.***

Jamuna Bank offers both funded and non-funded credit facilities.

Facility Type		Purpose
Funded		
a.	Overdraft	**Working capital finance (Trading, manufacturing & work**
b.	Time Loan	**Finance of deal basis for 12 months at best.**
c.	Term Loan	**Finance on deal basis for projects (more than one year)**
d.	Trust Receipt (TR)	**Facility for retirement of shipping documents.**
e.	Inland Bill Purchase (IBP)	**Credit facility against accepted L/C.**
Non-funded		
f.	Letter of Credit (L/C)	**Credit facility for import**
g.	Back to Back L/C	**Credit facility against export L/C**
h.	**Letter of Guarantee**	**To participate in Tender, execution of work order.**

3.1.1 Funded Credit Facilities

Any type of credit facility which involve direct outflow of Bank's fund on account of borrower is termed as funded credit facility. Funded credit facilities may be classified into four major types:

1. ***Loans***
2. ***Cash Credit (CC)***
3. ***Overdraft***
4. ***Bill Purchas & Discounted***

3.1.1.1 Loans

Demand loan: This loan is granted to meet short-term working capital need which is usually for the period up to 1 year.

Term loan: This loan is granted to meet fixed capital expenditure which is usually for the period of one to five years. Loan agreements often contain restrictive covenant and loan is repayable in accordance to amortization schedule. Collateral is must for term loan. There are three categories of term loan

- ✓ Short term loan – More than 1 year but less than 3 years falls within this category.
- ✓ Midterm loan - This loan facility is extended for more than 3 years but less than 5 years. Trust Bank encourages midterm loan.
- ✓ Long term loan - Tenure of long term loan is more than 5 years.

3.1.1.2 Cash Credit (CC)

Cash credit is a continuous credit facility usually provided for working capital fund requirements purpose of the customer. Cash credit is generally given to traders and Industrialists for meeting up their working capital requirements. Cash Credit is of two types: (a) CC (Pledge), and (b) CC (Hypothecation).

Under this arrangement borrowers can borrow any time within the agreed limit and can deposit money to adjust whenever he has surplus cash in hand. Main features of Cash Credit are:

- A certain limit of credit amount is set at the time of initiation of Cash Credit facility.
- An expiration date is set, which is not more than one year.
- The drawings are subject to drawing power.
- A service charge, which in effect an interest charge is normally made as a percentage of the value of purchases.
- The primary security of Cash credit facility is stock of goods, which maybe hypothecated to Trust Bank as collateral.

3.1.1.3 Overdraft (OD)

Over draft facility is also a continues loan arrangement on a customer's current account permitting him to withdraw over and above his credit balance in his current account up to a certain approved limit for an agreed period. Here the withdrawal of deposits can be made any number of times at the convenience of the borrower, provided that the total overdrawn does not exceed the agreed limit. Customer can return any amount at any time within the pre-fixed time of the facility. Turnover of an OD facility is the most important phenomenon on which renewal of the facility depends. Over draft facility is given to the businessman for financing working capital requirement and high net worth individual to overcome temporary liquidity crisis. Overdraft facility to the borrower may be allowed generally in the following ways:

- Overdraft-clean
- Overdraft-against guarantee
- Overdraft-against FDR in the name of borrower
- Overdraft-against FDR in the name of the third party
- Overdraft-against Wage Earners' Development Bond
- Overdraft-against DPS
- Overdraft-against assignment of Book Debts/Bills Receivables (Work Order)/Life Insurance Premium
- Overdraft-against hypothecation of stock/raw materials, etc.

Secured Overdraft (SOD)

This is a type of overdraft facility given by keeping sufficient collateral from the customer. This facility provides specific right to a client to overdraw within a pre fixed limit for a certain period of time. SOD is normally granted against the security of tangible asset such as Lien of FDR, Bonds, SanchayaPatra etc. Interest charge on SOD is calculated as under on the basis of the security liened.

- In case of Wage Earners' development purchased from Trust Bank- @ 13%, from other bank - @13.50%
- In case of FDR, common thing is that 2.5% spread is kept in charging interest. Interest is calculated on outstanding amount at daily basis.

3.1.1.3 Bills Purchased and Discounted

- ❖ **Purchase of Bill:** Financing against Sight/Demand bills are treated as purchase of bills. In this case the bank becomes the purchaser /owner of such bill which is treated as security for the advance.
- ❖ **Discount of Bill:** Bank allows advances to the clients by discounting usance bills, which matures after a fixed tenure. In this method, the bank calculates and realizes the interest at a prefixed rate and credits the amount after deducting the interest from the amount of instrument. Discounting of bills, in fact, is an extension of credit facilities for a specific period.

Before purchasing and/or extending discounting facilities to any customer, Banker has to give consideration to the following aspects:

(i) Bills to be purchased from the regular customers of the Bank.
(ii) Integrity and credibility of the customer.
(iii) Bills to be purchased against sanction limit/arranged accommodation.
(iv) Documents of title of goods are clean and supported with all required documents.
(v) The branch manager is authorized to purchase bills.

Other important funded advances/facilities are:

- ✓ Advance against hypothecation of vehicles (Transport Loan)
- ✓ Consumer loans
- ✓ Agricultural loan – Farming and Off-Farming
- ✓ Weaving loan
- ✓ Micro credit
- ✓ Lease financing
- ✓ Hire Purchase
- ✓ Import financing (LIM, PAD, etc.)
- ✓ Export financing (Packaging Credit, Trust Receipt, etc.)

3.1.2 Non-Funded Credit Facilities

Non-funded facilities, also known as contingent facilities, are those where bank's fund is not required directly. Though these types of credit facilities are primarily non-funded in nature, at times they may turn into funded facilities as situation is so created. Bank receives commission rather than interest income by providing non-funded facilities. Following non-funded facilities are provided by JamunaBank

3.1.2.1 Letter of Credit (L/C)

A letter of credit is a credit line given by a bank to an importer to facilitate both foreign and inland transactions. This is a contingent liability which can be converted into a funded facility incase Bank makes the payment on behalf of the importer. A letter of credit can be revocable or irrevocable, restricted or negotiable, and so on.

3.1.2.2 Guarantee

Jamuna Bank offers guarantee for its reliable and valuable customer as per requirements. This is also a credit facility in contingent liabilities form extended for participation in development work like supply of goods and services. Main features of Bank Guarantee are

- It is a written document on non-judicial stamp.
- Expiry date is mentioned specifically with other terms and conditions.
- Trust Bank receives commission @ 0.50% per quarter of the guaranteed amount.

Jamuna Bank offers two types of Guarantee, which are as follows:

Tender or Bid Bond Guarantee (BB)
In time of tender bidding either cash or bank guarantee is required in case payment of earnest money. The tender guarantee assures that the tenders shall uphold the conditions of his tender during the period of the officer as binding and that he /she will also sign the contract in the event of the order being granted. Process of Bid bond Guarantee is as under:

- Request letter from customer along with board resolution in case of Limited company
- Trade license in case of Proprietorship Company.
- Copy of tender form
- Margin
    - (i) In-case of reliable client 10% to 20%
    - (ii) For a new client 100% margin is required
- Bank guarantee is issued in TK.300 Non-judicial Stamp
- Approval of Bank guarantee is given.

Performance Guarantee (PG)

Jamuna Bank also gives guarantee on behalf of the customer on completionof the delivery or performance after getting the tender. Beneficiary finds that as a guarantee, the contract will be fulfilled in every respect and can retain the guarantee as per provision for long time. Including a clause stating that the supplier can claim under the guarantee, by presenting an acceptance certificate signed by the buyer, can counteract this.

Document required for performance guarantee are:

- Tender schedule.
- Guarantee letter.

A guarantee can be converted into funded facility if it is en-cashed. If the client is unable to meet up banks demand a loan account is created like Over Draft as Bank is liable to pay to the beneficiary of the guarantee. If Bank guarantee is not used then the beneficiary or party to whom the guarantee was given on behalf of the client will sign on the back of the Bank Guarantee stamp and write the word ‘Released’. Then the facility will be expired as well as bank’s liability will be ceased.

Other important non-funded advances/facilities are:

- Advance Payment Guarantee
- Foreign Counter Guarantee

3.2 Categories of Loans

All loans and advances are grouped into four categories for the purpose of classification, namely –

(a) Continuous Loan
(b) Demand Loan
(c) Fixed Term Loan

3.2.1 Continuous Loan

The loan accounts in which transactions may be within certain limit and have an expiry date for full adjustment will be treated as continuous loans. Examples are – CC, OD etc.

3.2.2 Demand Loan

The loans that become repayable on demand by the bank will be treated as demand loans. If any contingent or any other liabilities are turned to forced loans (i.e without any prior approval as regular loan) those too will be treated as demand loans. Such as: Forced LIM, PAD, FBP and IBP etc.

3.2.3 Fixed Term Loan

The loans which are repayable within a specific time period under a specific repayment schedule will be treated as fixed term loans.

3.3Principal of lending

Credit is esteemed as the key that unlocks the possibilities of economic progress. It has great importance in wealth creation. Credit is important to the ordinary consumer at the local shop as well as to the multi-national organizations. Indeed credit has assumed the status of an institution in commercial relation.

Credit / Loan constitute the major revenue earning asset of a Bank. Banks lend mostly depositors money. Credit / Loanable fund having cost implications and repayment obligations to the depositors have to be managed efficiently with minimum possible credit (default) risk.

Moreover, credit culture is undergoing rapid change due to

- *Globalization*
- *Liberalization*
- *Consolidation*
- *Disintermediation*
- *Competition*

Incidence of Credit Risk may be higher unless adequately cared and monitored.

3.3.1 Credit Risk

Credit Risk is the possibility that a borrower or counterparty will fail to meet obligations. It is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

Credit Risk arises from the bank's dealings with or lending to the corporate, individual and other banks or financial institutions. To minimize losses, banks should have comprehensive credit risk management policies and procedures.

3.3.2 Credit Risk Management

The essence of managing risk is making good decisions. Correct decision making depends on accurate information and proper analysis**.** The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization.

To ensure Good Credit Risk, CRM steps

- ✓ Risk identification
- ✓ Risk Assessment
- ✓ Risk Grading
- ✓ Risk Pricing
- ✓ Risk Monitoring

3.3.3 Risk Identification

- ❖ Risk factors internal to Banks and Financial Institutions
- ❖ Risk Factors on Account of borrowing parties

Internal risk factors	External Risk factors
➢ Risk in Planning	➢ Input / Utility Availability
➢ Risk in Execution / Implementation	➢ Govt. Policies.
➢ Marketing Risk	➢ Natural Calamities.
➢ Financial Risk	➢ Technological Obsolescence
➢ Managerial Risk	➢ Political Situation

3.4 Borrower Selection

In bank, a borrower is the party in a loan agreement which receives money or other instrument from a lender (bank) and promises to repay the lender (bank) in accordance with agreed terms. So, selection of borrower is an important component of the credit granting process. Inappropriate borrower selections are noisy signals that could have economic consequences for lenders. Professional loan officers analyze financial and non-financial information of proposed borrowers and set preferred levels of collateral and covenants. Borrower selection is associated with the amount of information examined, lenders' risk preferences and years of lending experience. Effective system that ensures repayment loans by borrower is critical.

Lending means deployment of credit and all loans contain some degree of risk involved in the whole process. So, borrower selection is very much important to minimize the risks of lending as wrong borrower selection may lead to unexpected situations among the Bank, the depositors and the borrower that based upon trust. To ensure sound lending, borrower selection is the process of evaluating credit risk on the criteria of safety, liquidity, purpose, profitability, security, diversification, adequate return, credit control, national priority as well as end use of the funds.

Impact of wrong borrower selection:

Chain Impact
Selection of wrong borrower
Non-performing loans
Low margin / Low return
Low level of Profit / Loss

3.5Applications for Loans and Their Processing

3.5.1 Loan Application

As part of the banking business, the bank has various segments to which credit facilities are provided for their business requirements. These include a wide range of customers and range from small & medium enterprises to large corporate borrowers. The bank has a process for identification of target customers to whom facilities can be provided based on customer selection and risk assessment for that segment. Thus, the focus is on contacting prospective customers and encouraging them to avail of banking services from Jamuna Bank based on the incremental value we can add to a customer's business, rather than customers making applications to the Bank for facilities / services.

In the process of lending, loan application is vital in the sense that the borrowers express their requirement in light of their present situation. We can come to know about the clients fund requirement and purpose through loan application.The client completes the Credit / Loan Application with the assistance of the Branch Manager or his / her delegated officer as per the suggested format. The form will help insure that adequate information about the borrower is obtained. The application should be filled out as completely as possible to provide sufficient information with which to begin the analytical process, form the basis for an initial site visit and understand proposed collateral.

One of the objectives of thorough initial visits with the client is to determine the client’s character, business condition, prospects and to gather supplemental financial information. Identification and appraisal of collateral is also essential during initial visits.

Credit and character review: Credit references

The way a potential borrower handles its obligations with other creditors, such as lenders and suppliers, is a strong indication of how it will handle its obligations with the bank. Therefore, we should ask questions to other creditors concerning their experience with our potential borrower. Answer to these questions will increase understanding of the credit and make loan officers more confident about processing sound loan recommendation. The core questions may be as follows:

- Does the potential borrower honor its obligations on a timely basis?
- When did you first extend loans / deliver goods to this client?

- When did you first establish credit terms (or lend money) to this client?
- What is the highest amount of credit approved for this client?
- What is the current outstanding balance?
- Will you continue to grant credit terms to this client?
- How often is payment received? When was the last payment received?
- Are payments received on a timely basis?
- Has the client ever defaulted on a payment? Was legal action ever threatened / initiated?
- Do you consider the client as safe credit risk? Why?

When checking with another bank, try to obtain information on collateral, interest rate, tenor, maturity date, payment amount, outstanding balance, status of payments (current, past due etc.) and past repayment history. The goal here is to obtain as much pertinent information as is possible.

Written confirmation of credit references, if possible, is important because it indicates that the information is most reliable. In many instances, refusal to provide written confirmation means that the information is not reliable. When written confirmation is received, it should go into the credit file. The bank would give an acknowledgement for receipt of all loan applications. Time-frame within which loan applications will be processed would be indicated in the acknowledgement of such applications.
The bank would verify the loan applications within a reasonable period of time. If additional details / documents are required, it would intimate the borrowers immediately.

3.5.2 Credit Assessment

The bank would ensure that there is proper assessment of credit application made by borrowers. The assessment would be in line with the bank's credit policies & procedures and relevant regulatory guidelines.

Analysis of credit risk
Credit risk analysis begins with the clear and careful identification of risk factors such as

- Through Borrower / Industry Analysis
- Background of the borrower
- Loan Purpose / Tenor Justification
- Historical Financial Analysis
- Owner’s background, character and management capability
- Ability to penetrate market sectors and competitive factors
- Projections / Repayment Ability
- Account Conduct
- Value of collateral and guarantee(s)
- Adherence to Lending Guidelines
- Mitigating Factors
- Risk Grade Scorecard
- Environment issues.

3.5.3 Credit Risk Components and Key Parameters

As a part of appraisal on loan application, Credit Risk analysis is mandatory to minimize risk of lending. In assessment of credit risk, we follow integrated Credit Risk Grading model initiated by Bangladesh Bank.

Credit Risk				
Financial Risk	**Business / Industrial Risk**	**Management Risk**	**Security Risk**	**Relationship Risk**
Leverage	Size of business	Experience	Security coverage	Account conduct
Liquidity	Age of business	Succession	Collateral coverage	Utilization of limit
Profitability	Business outlook	Team work	Support	Compliance of Covenants / Condition
Coverage	Industry growth			Personal deposit
	Market competition			
	Barriers to business			

Financial Risk: Probability of failure to meet obligation due to financial distress.

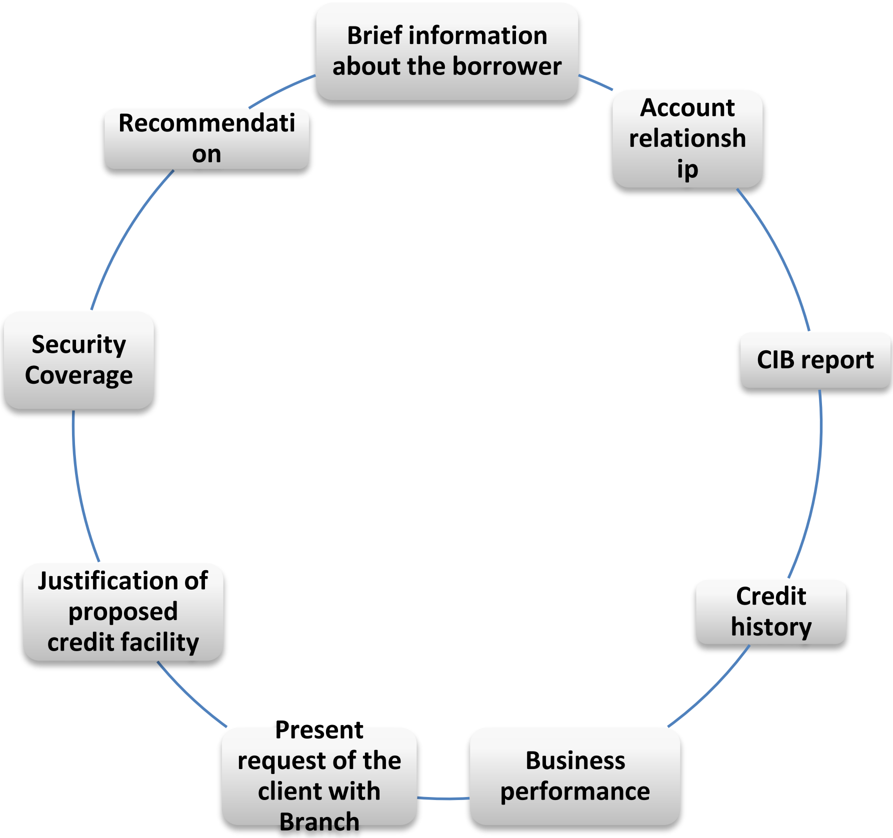
- High leverage
- Poor Liquidity
- Low profitability
- Insufficient cash Flow.

Business / Industry Risk	Adverse Industry situation / unfavorable business condition to impact repayment
Management Risk	Probability of default due to poor managerial ability.
Security Risk	Probability of default due to poor quality of security.
Relationship Risk	Risk areas in terms of Borrowers Relationship.

In addition to the above, Bangladesh Bank Guidelines as well as our Bank's Credit Policy Guidelines will be followed meticulously prior to forwarding / recommending any credit proposal as a matter of priority.

3.5.4 Steps for processing of credit proposal (preparation of Credit Memorandum)

After right selection of borrowers through Credit Risk Grading process and subsequent credit assessment, here comes the processing of Credit Proposal / preparation of Credit Memorandum. While process / appraisal of credit proposals, the following steps to be followed meticulously:



Steps for processing of credit proposal

1. Brief information about the borrower

Brief information about the borrower such as-

- History of business
- Present & future business plan
- Business experience
- Management set up
- Knowledge on the overall business activities to realize the trend of the market.

2. Account relationship

Turnover in the client's account for last one year or more to asses client's business volume & present condition.

3. CIB report

Updated CIB report, to be obtained on the borrower from Credit Information Bureau, Bangladesh Bank for assessment of the condition of their existing liabilities with any Bank / Financial Institution.

4. Credit history

Borrower's credit relationship including their present liability position. Borrower's liability with other Bank / Financial Institute, if any, will also be highlighted.

5. Business performance

Business performance to be assessed from the followings

- Last three years production, sales, purchase, expenses, profit, inventories etc.
- Growth rate of sales, profit, expenses, retained earnings etc.
- Client's equity in the business
- Receivables & payables ratio
- Cash flow statement

6. Present request of the client with Branch recommendation

Present request of the client for credit facilities which to be assessed duly and to be forwarded with Branch recommendation.

7. Justification of proposed credit facility

The purpose of the loan should be well defined / established. Justification / assessment of required credit facility to be made keeping in view that the funds are not being deployed for unproductive / ill-defined purpose in light of the client's financial & management strength, requirement, cash flow generation etc. otherwise the repayment in the normal business course will become uncertain.

8. Security Coverage

The securities offered for loans by the borrowers are assurance to the Banks to fall back upon in case of need. So, details about the offered securities will be highlighted in credit proposal to make better understanding of them for consideration of the credit proposal.

9. Recommendation

Analytical transaction summary that supports the delegated authority to understand overall condition i. e. nature of transaction, involved risk factors etc. and to take right decision accordingly.

3.5.5 Loan structure and terms

Background

After assessment of credit risk and taking decision for recommendation, the credit officer has the responsibility to carefully structure the credit transaction so that risk and uncertainty are minimized.

Amount

The amount of the loan or facility should be based upon the realistic need of the borrower. Thisneed must be analyzed carefully given the data provided by the borrower coupled with a realistic assessment of the projected cash flows to repay the loan.

Disbursement

Disbursement may be structured matching with the periodic requirement of the borrower in implementation of a project along with involvement of equity participation of the borrower itself.

Tenor

Tenor shall be structured to meet the needs of the business and not to provide the longest possible repayment period.

Principal Payments

The amount of monthly / quarterly / six monthly / yearly principal payments will be structured depending on business needs and projected cash flow.

Interest Rates & Fees
These should be determined on case to case basis abiding by the rules of regulatory authorities.

Grace Period
The borrower may need a brief grace period on principal loan payments in order to provide enough time to commence production and resulting cash generation.

Guarantees
The Guarantee of the owner(s) and perhaps also of certain key personnel, of the borrowing concern is always required and will serve as a secondary source of loan repayment.

Collateral
Collateral is required as a secondary source of repayment. At a minimum, any equipment, building or other asset purchased with loan proceeds should be pledged or mortgaged to the bank as collateral for the loan. Moreover, the primary place of business and / or production is required as collateral.

3.6Credit Approval Process

Process relating to approval/sanctioning of credit following steps are followed in JBL

3.6.1 Pre-Approval stage at branch

The credit proposals are generally routed through the Branches. The Loan Processing Department at the branch level prepares the Credit Proposals through necessary evaluation / analysis by fulfilling JBL's lending criteria, ensuring perfection of the security for the loans and to provide all information required on the creditworthiness of the clients. Proposals, which do not meet JBL's lending criteria, are not entertained generally without particular merit and justification of the case. The credit proposals are signed by the Chief Manager and the departmental head / credit officer. Then, the Credit Proposals with specific recommendation by the Branch are sent to the Head Office addressing Credit Risk Management (CRM) Division for the pre-sanction evaluation and subsequent approval or regret as the case may be.

3.6.2 Approval Process at Head Office

Credit Risk Management (CRM) Division consists of Corporate Credit Unit, Small & Medium Enterprise Department & Retail Banking Unit for processing & approval of credit facilities matching with the requirement:

Upon receiving credit proposals from the branches, respective unit / department processes / evaluates the proposals and makes in-depth analysis taking different risk factors into consideration for approval or regret. It takes all necessary measures to ensure quality assets. The respective unit / department finds out all the positive and negative sides of each credit proposal recommended by the branch credit officers / relationship managers. This unit / department ensures that the proposal has been analyzed as well as prepared complying all the necessary rules, regulations, circular, guidelines and recommendation has been made in conformity with the Credit Policy, Guidelines and Credit Norm of our Bank, Bangladesh Bank and any other agency. It also ensures that that the recommendation falls under the purview of bank's lending cap, industry preference, liquidity preference, tenure preference, and other considerable factors. If the result of the analysis is found to be very satisfactory, then memo on the proposals is prepared for approval from the delegated body with opinion / recommendation of the unit / department.

Upon the recommendation of the respective unit / department, the proposal is placed to the competent delegated authority as per discretionary power viz. Head of CRM, Deputy Managing Director, Managing Director, the Executive Committee of the Board of Directors or the Board of Directors for final approval.

Upon approval as per delegation, Sanction Advice is prepared stipulating all the standard terms and conditions to the respective branches and the copy is forwarded to the Monitoring & Control Department.

3.6.3 Conveying credit rejection

In the case of all borrowers seeking loans, the bank would convey in writing, the main reason/reasons which, in the opinion of the bank after due consideration, have led to rejection of the loan applications. In case the proposal does not meet the internal risk parameters of the bank, the borrower would be intimated accordingly.

3.6.4 Loan applications and appraisal under consortium/syndication arrangement

In the case of lending under consortium/ syndicationarrangement, the bank would endeavor to evolve procedures to complete appraisal of proposals in a time bound manner to the extent feasible, and communicate its decisions on financing or otherwise within a reasonable time, in co-ordination with other members of the consortium/syndication.

3.6.5 Disbursement of loans including changes in terms and conditions

The bank would ensure timely disbursement of loans sanctioned in conformity with the terms and conditions governing such sanction. It would give notice of any change in the terms and conditions including interest rates, service charges etc.Terms and conditions are revised as per prior agreement with the customer, the process for which is covered in the sanction letter duly accepted by the customer on the loan agreement.

3.6.6 Conveying credit limit and terms & conditions / Loan closing

Loan closings represent the end of an approval process and the beginning of a relationship process, which involves many different activities on the part of borrower and lender, which include, among other processes, repayment, monitoring and possibly collection activity.

All new loans and facilities must be evidenced by a signed agreement which is a contract between the lender and the borrower. A borrower should know precisely what he is receiving; how the loan is structured; how the bank intends to monitor and how it will enforce any special terms and conditions of the contract. Also under the terms of loan agreement, the borrower acknowledges its responsibility to promptly advise the bank about any inability to repay contractually and also of any material changes in circumstances which could give rise to an event of default in an agreement.

Fig:Loan Sanction Process of JBL

3.7Recovery of Loans & Advances

Monitoring of loans and advances is the only way to ensure smooth recovery of the money extended to the borrower. The basic idea behind monitoring is to eliminate the possibility of lending money to borrowers who may fail to repay the loans or who are likely to divert loan money for inappropriate purposes. The Banker has to take appropriate supervisory or monitoring measures after disbursing to protect himself against risks.

Recovery measures

(i) Generally, the borrower is supposed to repay his / their loans and advances as per the terms and condition fixed earlier.

(ii) **Overdue but not defaulted:** To recover overdue loans and advances, Banks sometime facilitate the borrower by restructuring their loans and advances or by extension of time validity.

(iii) **Default Loans:**Recovery of defaulted loans is made by rescheduling without interest waiver / with interest waiver matching with the cash flow of the borrower to facilitate repayment strictly following Bangladesh Bank guidelines for rescheduling i.e. taking down payments as per BB specifications.

For rescheduling, no prior approval of Bangladesh Bank will be required other than the Director / Ex-director of a Bank Company. Write off is the way for keeping the defaulted loans out of the Bank's Balance Sheet which to be done by following guidelines as fixed by Bangladesh Bank. As the Bank is obligated to recover the depositor's money, they have to go for legal actions by way of arranging sale of mortgaged properties under ArthaRinAdalatAin, 2003, through public auction and comparative bid evaluation to recover classified loans and advances.

4. Performance Analysis

Performance of a banking organization can be followed by observing their financial strength. So for the evaluating the JBL, Dhanmondi branch's performances on the basis of credit management we follow the financial position, finical ratios, performance in Bank Guarantee as well as loans positions which is their investment. The financial position of the bank for the last year (2014) is following:

4.1 Financial Statement

Jamuna Bank Limited Dhanmondi Branch			
Details	**30-Jun-14**	**31-Dec-14**	**Total**
Assets	**4,144,215,580.42**	**4,075,011,567.75**	
Cash & Bank	39,988,084.00	32,950,238.00	
Loan & Advances	3,813,026,983.58	3,513,360,109.35	
Fixed Assets	12,443,712.47	10,044,014.47	
Other Assets	29,799,494.07	26,431,898.17	
Advance Deposit	30,750.00	30,750.00	
Expenditure	248,926,556.30	492,194,557.76	
Liabilities	**5,038,597,941.80**	**5,662,538,113.86**	
Deposit	4,573,705,672.00	4,807,394,728.70	
Bills Payable	35,445,373.01	43,138,911.43	
Other Liabilities	76,232,816.34	110,667,861.72	
Interest Suspense	3,953,431.00	4,097,456.00	
Income	349,260,649.45	697,239,156.01	
Income	349,260,649.45	347,978,506.56	697,239,156.01
Expenditures	248,926,556.30	243,268,001.46	492,194,557.76
Profit	**100,334,093.15**	**104,710,505.10**	**205,044,598.25**

Table: Financial position of JBL for the year 2014

The above table shows the financial position of Jamuna bank Dhanmondi branch. It is showed that the profit increase very little than the first half. It is shown that the assets reduced than the 1s half. On the other hand the liabilities enhance which proved as negative on the way of profit enhancement. At the end of the year 2014 profit was BDT. 20.5 corers.

4.2 Financial Analysis

Financial analysis forecast the financial performance of an organization. It is define as a systematic use of ratio to interpret the financial statement so that the strength and weakness of the organization as well as its current financial position can be determined.Major financial analysis indicators are Current Ratio, Debt Ratio, ROI and ROA.

4.2.1 Current Ratio

Current ratio focuses the relation between current assets and current liability. IT follows the following formula:

Current ratio= Current assets/current liabilities

Details	**30-Jun-14**	**31-Dec-14**
Current ratio	**0.87**	**0.68**
Current assets/current liabilities		
Current assets	39,988,084.00	32,950,238.00
Current liabilities	4,609,151,045.01	4,850,533,640.13

From above table we find that the ratio decline 0.19 in the last half year. Which indicates,carve of the ratio is down word sloping and liquid asset of the bank reducing and ability to repay money to the depositor decline.

4.2.2 Debt Ratio

Debt ratio is a ratio that indicates the proportion of a company's debt to its assets. It shows how much the company relies in debt to finance assets. This ratio can be calculated by following formula:

Debt Ratio= Total Liability/Total assets

Details	**30-Jun-14**	**31-Dec-14**
Debt Ratio	**1.202842926**	**1.384732759**
Total Liability/Total assets		
Total Liability	4,685,383,861.35	4,961,201,501.85
Total assets	3,895,258,274.12	3,582,786,259.99

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The high debt ratio, the higher risk associated and low debt ratio indicates conservative financing of the organization. In the above table it shows that the debt ratio in last half year rises 0.18. But it's not so as high that can effects the organization negatively. It also shows that the bank increase to use depositor money rapidly.

4.2.3 ROI (Return on Investment)

ROI is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. This ratio can be calculated by following formula:

ROI (Return on Investment) = Profit/Investment

Details	**30-Jun-14**	**31-Dec-14**
ROI (Return On Investment)		
Profit/Investment	**3%**	**3%**
Profit	100,334,093.15	104,710,505.10
Investment	3,813,026,983.58	3,513,360,109.35

The growth rate is constant which is good but not so good because it's not rises, but in unstable political situation, ROI stability is good for the organization.

4.2.4 ROA (Return on Assets)

It indicates how profitable a company is relative to its assets.This ratio can be calculated by following formula:

ROA (Return on Assets) = Profit/Total Assets

Details	**30-Jun-14**	**31-Dec-14**
ROA (Return on Assets)	**3%**	**3%**
Profit/Total Assets		
Profit	100,334,093.15	104,710,505.10
Assets	3,895,289,024.12	3,582,817,009.99

ROA isconstant; there are no changes in ROA within the year 2014.But it needs to be increase to sustain in the comparative banking industry.

4.3 Bank Guarantee Position

Guarantee			
2014	**Number of BB/PG/APG**	**Amount**	**Income**
January	14	5,126,000.00	61,250.00
February	25	56,291,000.00	736,627.00
March	31	67,344,000.00	1,092,419.00
April	27	39,457,000.00	505,761.00
May	13	33,834,000.00	435,053.00
June	34	46,901,000.00	461,953.00
July	7	14,871,000.00	831,000.00
August	14	10,940,000.00	112,373.00
September	28	74,802,000.00	543,613.00
October	18	19,563,000.00	498,966.00
November	16	42,122,000.00	743,946.00
December	17	81,553,000.00	1,128,345.00
Total	244	492,804,000.00	7,151,306.00

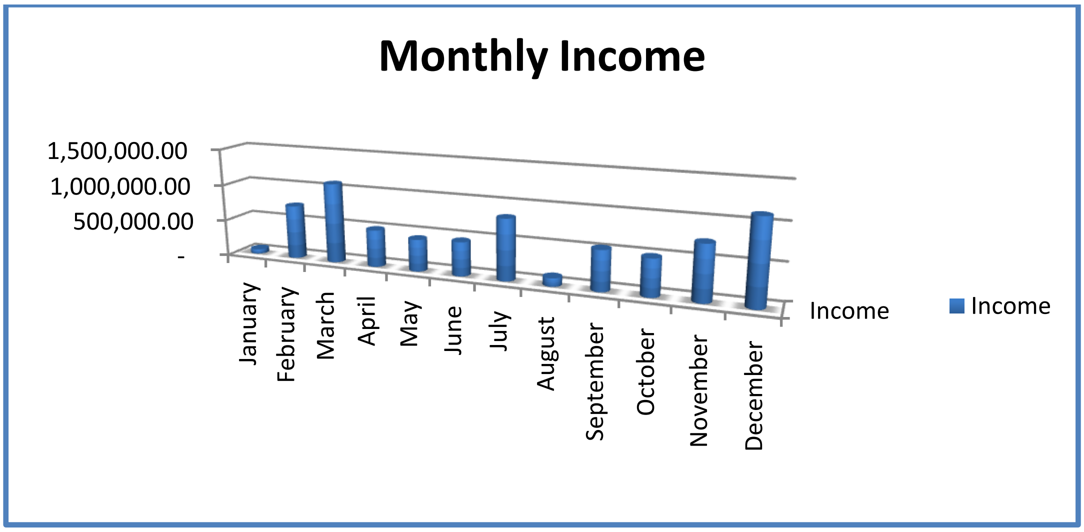

Fig:Bank Guarantee Position

In 2014 the JBL Dhanmondi branch issued total 244 Bank guarantee by which they earn 71.51 lac. By observing the graph we can see that in January and August the income from guarantee was low. But it was good in the month of March and December.

4.4 Loan Position

Loans					
Types of	Q1	Q2	Q3	Q4	2014
Loan	Amount	Amount	Amount	Amount	Amount
Continuous	1,492,383,998	1,460,365,315	1,337,841,917	1,404,648,692	5,695,239,922
Fixed Term	1,660,936,974	1,698,843,498	1,741,571,040	1,004,900,339	6,106,251,851
Demand	806,851,446	646,079,432	557,900,199	500,445,702	2,511,276,779
Total	**3,960,172,418**	**3,805,288,245**	**3,637,313,156**	**2,909,994,733**	**14,312,768,552**

Table: Different types of loan position

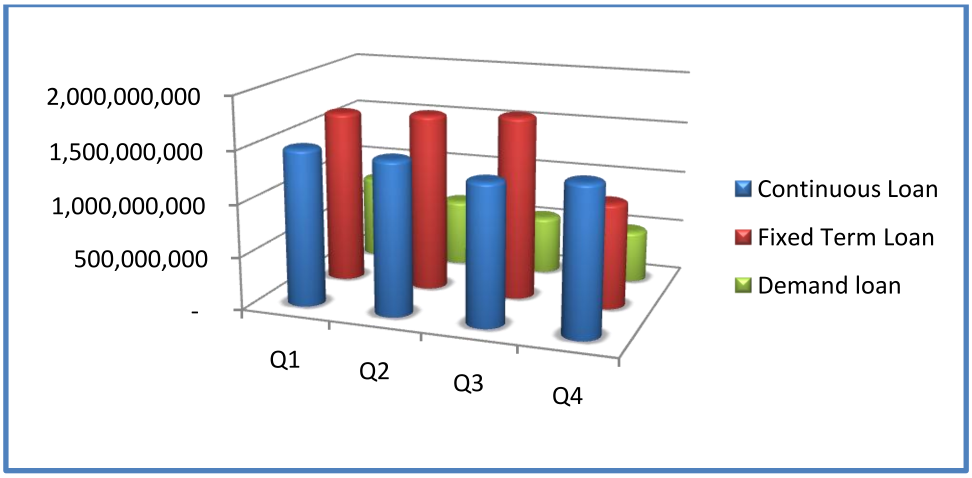

Fig: Loan Position Quarterly

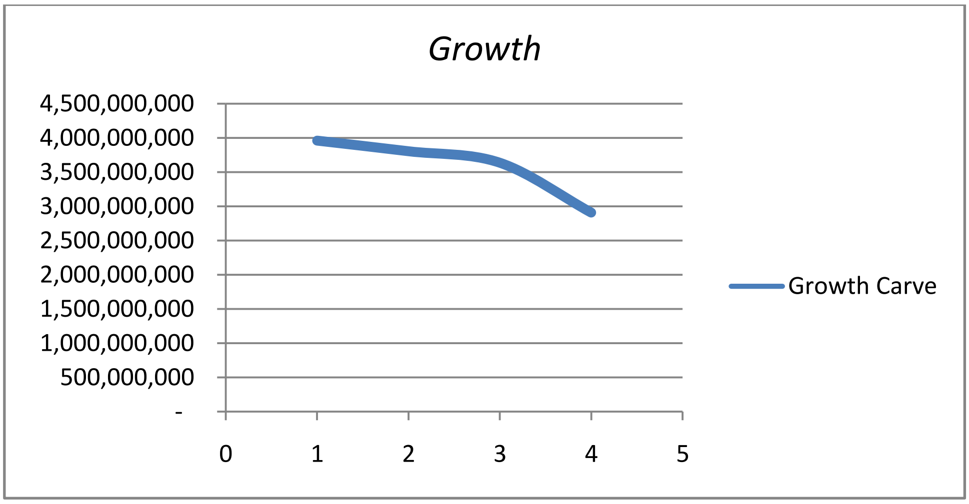

Fig:Growth Carve

From the above char and carve we find the condition of the loan decline by the times. But if we try to find the reasons for this downward slope we find political instability which influences the business growth negatively as well as the investment. It's an external factor of the business which cannot control.

5. SWOT Analysis

Strengths

- ✓ Well-capitalized Bank with potential to increase capital base continuously.
- ✓ In the ranking of Bangladesh Bank, this year JBL was rewarded as a first group Bank.
- ✓ Computerized banking and excellent customer service.
- ✓ Customer's faith a stable dependable Bank.
- ✓ Jamuna Bank Limited has already established a favorable reputation in the banking industry of the country. It is one of the leading private sector commercial banks in Bangladesh.
- ✓ The Bank has shown a tremendous growth in the profits and deposit sector. The number of deposits and the loan and advance are also increasing rapidly.
- ✓ JBL has an interactive corporate culture. The working environment is very friendly and interactive.
- ✓ JBL has a reputation of being the provider of good quality services to its potential customers.

Weaknesses

- ✓ The bank failed to provide a strong quality recruitment policy in the lower some mid-level position.
- ✓ The bank does not have sufficient ATM booths. The number of booth is less than other banks.
- ✓ Jamuna Bankhas lacking of advertisement both in printed media and electronic media. Now in this global arena it is a great opportunity to reach their goal by using these media.
- ✓ JBL has some limitation in software. They are still using the older version of software. So it is not only creating some problems for the official personnel to work properly but also delaying service to their customer.

Opportunity

- ✓ A large number of private banks have been coming into the market in the recent time. In this competitive environment JBL must expand product line to enhance its sustainable competitive advantage.
- ✓ In the product line, they can introduce more ATMs to compete with local and the foreign bank.
- ✓ JBL can introduce special schemes and privileges for corporate customers who have an income level higher than service holders.
- ✓ Control and monitoring of the borrowers can be handling in a more consolidated manner to reduce the volume of bad debts.
- ✓ Investing in secured market to minimize risk factors.
- ✓ More commercial branches should be established attractive places.

Threats

- ✓ All the multinational banks and upcoming foreign and private banks pose threats to Jamuna Bank Limited.
- ✓ If that happens the intensity of competition will rise further and the bank will have to develop strategies to compete against this banks.
- ✓ Some competitors are offering a high scale of salary to employees compared to JBL and it is a threat that some officials are shifting to those Bank with confidential information and techniques of JBL.
- ✓ Frequent Currency Devaluation: Frequent Taka Devaluation and foreign exchange rate fluctuations and particularly Southeast Asian currency crisis adversely affects the business globally.

6. Recommendations

As we all know JBL is one of the well-known banks in our country. From my little knowledge it's quite hard to give recommendation to such a well-established bank. Still from my learning and observation, I am giving following recommendation to follow:

- ✓ Reduce interest rate and service charge of the loan
- ✓ They should try to improve and reduce loan processing system
- ✓ Both partial and existing investor need to be trained in order to make them successful entrepreneurs
- ✓ Credit worthiness of the investor must be assessed more carefully before undertaking credit worthiness of their proposed project
- ✓ JBL's both loan processing service charge and loan processing time is quite high compared to their compotators
- ✓ As we have seen that the NPL's are increasing day by day which focus the lack of efficiency in terms of recovery.
- ✓ In terms of attract the clients JBL Should introduce new marketing strategy
- ✓ Maximum amount of loan is provided to the long term industrial sectors. They intentionally ignore the agricultural sector which is negative for the Bank as well as the country's economy.
- ✓ Introduce various incentives to increase credit facility
- ✓ Need to introduce BASEL 3 to develop credit security as well as assessment.
- ✓ Need to take necessary initiatives to improve expertise in investment business

7. Conclusion

Despite stiff competition among banks operating in Bangladesh both foreign and local, JBL has achieved satisfactory progress in areas of its operations and earned an impressive operating income over the previous years. The bank hopes to achieve a satisfactory level of progress in all areas of its operations including target of profitability.

The management of JBL is taking strategic steps to enable the bank to emerge as a strong and progressive institution. With a bulk of qualified and experienced human resource, the bank can exploit any opportunity in the banking sector. It is continuing to make efforts to refine its products and operations to make them more compatible. New action plans have been taking to maintain revenue growth in future.

Jamuna Bank Ltd. is the preferred choice in banking for friendly and personalized services. Credit Division of Jamuna Bank has a very qualified and dedicated group of officers and staffs who are always trying to provide the best service to the clients. They always monitor the credit in different sectors and their position. Before providing the loan they analyze whether the loan will be profitable and whether the client good enough to repay the loan within the given period of time.
The image created by the bank is impressive and the total condition is almost within their control. JBL has the capacity to utilize all its resources. If it can utilize all its resources, it can earn more profit and can acquire a superior position among the banks in Bangladesh.

Finally, it can be said that the bank stood out for its strength and operational craftsmanship marketing its position as the potential market leader in all core areas of banking in the country. I wish Jamuna Bank Limited and all its employees and clients a successful and bright future.

Refinances

- *www.jamunabankbd.com*
- *Annual report of Jamuna bank*
- *Different publications*
- *The officials' conversation*