

AN INTERNSHIP REPORT

ON

“CREDIT RISK MANAGEMENT PRACTICE IN SONALI BANK LTD”

SUBMITTED TO

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MBA PROGRAM

BRAC UNIVERSITY,

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DATE: 27TH APRIL, 2015.

LETTER OF TRASMITTAL

APRIL 26th, 2015

To

Mohammad Tanvi Newaz

Assistant Professor

MBA program

Brac Business School

Brac University

Dhaka, Bangladesh

Subject: Submission of Internship report on "*CREDIT RISK MANAGEMENT PRACTICES OF SONALI BANK LIMITED*".

Sir,

As a part of MBA program an internship report is enclosed herewith. The report was prepared on "*CREDIT RISK MANAGEMENT PRACTICES OF SONALI BANK LIMITED*". In the course of preparation the report relevant documents, data, information were studied and practical knowledge had been gathered.

I pray and hope that the mistakes, the report may have, will be kindly excused. Lastly, I beg your kind consideration for evaluating this report.

Thanking you very much indeed.

Sincerely yours,

Sabrin sultana

Id: 12164044

MBA program (Major: HRM)

Brac Business School

Brac University,

Dhaka, Bangladesh.

CERTIFICATE OF SUPERVISOR

This is to clarify that SABRIN SULTANA student of MBA program; Brac University Dhaka major in Human Resource management completed his internship program successfully with Sonali Bank LTD. Pabna Branch, Pabna.

She has done her job according my supervision and guidance. During her work period, she maintains regularity, obedient to comply rules and policy.

I wish great success of her future career path.

Best regards'

Md. Akkas Ali

Senior Executive officer

Sonali bank Ltd. Pabna Branch,

Pabna.

ACKNOWLEDGEMENT

At the beginning I would like to express my deepest gratitude to my Almighty Allah for give me the strength & the composure to complete the internship report .words actually will never be enough to express how grateful I am, but never the less I shall try my level best to express my gratefulness towards some people. This internship report might never been completed without the necessary practical knowledge, assistance of many books, articles, websites and primary data.

Indeed I am grateful to my faculty member of MBA program, Mohammad Tanvi Newaz, Brac University, from whom I was inspired and supported in various ways during the internship work period and at the time of study.

I would like to express my sincere gratitude to all executive, sr. officers and officers of Sonali bank Pabna branch, who had responded cordially to meet my need relating to the report and give me their support. Of them I like to mention the name of

1. MD. Akkas Ali (Executive Officer).
2. Md. Azaher Ali (SR. officer).
3. MD. Robiul Islam (SR. Officer, IT).
4. MRS. Farhana Yesmin (Officer).

I am grateful to my beloved parents, well wishers for their inspiration that lead me to go ahead. Finally I like to thank all the persons who have directly or indirectly contributed in preparing this report.

EXECUTIVE SUMMARY

Sonali Bank Ltd. is the largest state owned commercial bank in Bangladesh with a total of 1203 branches. Total of 858 branches in rural and 343 branches in urban area. The functions of the bank covered a wide range of banking and functional activities to individual, firms, corporate bodies, Multinational agencies and the rural area. The bank provides more than 21 types of free services on behalf of the government of Bangladesh through its rural and urban branches as part of their commitment to society.

Sonali bank Ltd. follows the rules and regulation prescribed by the Bangladesh bank. To manage credit risk, the Bank applies credit limits to its customers and obtains adequate collaterals. Credit risk in the Sonali Bank Ltd.'s portfolio is monitored, reviewed and analyzed by the Credit Risk Management (CRM). Sonali Bank Ltd. has established Asset-Liability Management Committee (ALCO) to determine the maximum risk exposure. Management is aware about guidelines of Bangladesh Bank and implemented new capital accord BASEL-II.

Sonali Bank Ltd. constantly monitors, reviews and analyzes its credit portfolio to minimizing potential losses and ensuring efficient credit process. To manage the Non-Performing Loans (NPL), Sonali Bank Ltd. has a comprehensive remedial management policy, which includes a framework of controls to identify weak credits and monitoring of these accounts constantly.

A through credit risk assessment is done by analyzing borrower, industry, demand/buyer, historical financial statements etc. Bank review documents like loan applications, financial statements, market reputation, CRG, CIB report etc. to investigate credit risk. Managers have to enquiry about loan applicant. Proper documentation is required before sectioning loans. They must conduct necessary KYC (Know Your Customer) part on the customer and Money Laundering Guidelines must be followed. On the basis of investigation the branch manager will prepare a credit report as per format provided by their head office.

Sonali bank Ltd. Pabna branch is where I did my internship. Loan and advances are sanctioned according standard procedure. In this particular branch consumer loan and SHBL are most popular. Credit risk is relatively low. Recovery rate is 100% in consumer loans and SHBL. Performance of other loans is also good. As most of its credits are related only to two kinds of loans, its credits are not well diversified. So it faces credit concentration risk. As it is a rural branch opportunity for sanctioning large scale or industry loan is very limited. Most of the deposits are added to Sonali bank general account.

To understand the effectiveness of CRM practices, I analyzed some key aspects which include Process of credit risk management in Sonali Bank, Credit risk management practices followed in Sonali Bank, the credit risk faced by the bank and Methods used to mitigate credit risk. I found the credit risk management practice of Sonali Bank Ltd. is quite admirable. However the credit sanctioning procedure is quite lengthy compared to today's business world. Systematic and timely monitoring and appropriate documentation are tried to be maintained. Scams like "Hall-Mark" exposed major weakness in top management. The bank should emphasize on reducing the classified and non-performing credits by concerted efforts. Filing has to be dealt with importance and Salary scale should be revised.

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List of Acronyms

ACRONYMS	
SBL	Sonali Bank Limited
LTR	Loan Against Trust Receipt
IRC	Imported Registration Certificate
CIB	Credit Information Bureau
CRM	Credit Risk Management
SWOT	Strength Weak Opportunity Threat
ALCO	Asset-Liability Management Committee
NPL	Non-performing Loan
RWA	Risk Weighted Assets
CRG	Credit Risk Grading
IBC	Inward Bill For Collection
KYC	Know Your Customer
VAT	Value Added Tax
FDR	Fixed Deposit Receipt
A/C	Account
LR	Leverage Ratio
SLR	Statutory Liquidity Requirement
LIM	Invested Against Imported Merchandise
HBI	House Building Investment
BCD	Bearer Certificate Deposit
PO	Payment Order
OBC	Out Ward Bill For Collection
CRR	Cash Reserve Ratio

Chapter 1

Introduction

Origin of the report

To support my internship report I worked as an intern in Sonali Bank Ltd. PABNA br. and my topic of the report is "**Credit risk management practices in Sonali Bank Ltd.**" as part of the fulfillment of internship requirement. One of most significant challenges for a bank is to strongly manage its credits. Since the largest slice of income generated by a bank and a major percentage of its assets is subject to this credit, it is obvious that sensible management of this credit is fundamental to the sustainability of a bank.

Objectives of the study

Preparation and presentation of this report contains few specific objectives. These are:

To have a sound understanding of credit risk management system and procedure followed in the Sonali Bank Ltd.

To gain knowledge about the credit related operations and maintenance in this bank.

To analyse in detail the credit risk management process of the bank and to make recommendations if needed.

To get knowledge about the effectiveness of loan and sanction procedure that is conducted on the evaluation of credit risk.

To have a general idea about the credit risk management performance of this bank.

Organization of the study

In this study I made an attempt to demonstrate the credit risk management practices in Sonali Bank Ltd. The study is carried out in a widely practiced manner. In chapter 2 I tried to give an overview of the bank. Here I summarized current status of the bank, main services it offers, practice of CSR as well as government agendas etc. Disclosures that are made under BASEL-II relating to Credit risk of the bank and credit rating are also presented here. In the end I tried to do an SWOT analysis on overall position of the bank. I also tried to illustrate CRM practice that I experienced during my internship period. I tried to show the performance of this particular branch from the data I collected during my internship. Though it is near impossible to judge overall CRM practice of such big organization from working in a small branch for short period of time. In the last chapter I made some recommendations that I think the management should look into.

Limitation of the study

The presented study was not out of limitations. But it was a great opportunity for me to know the banking activities of Bangladesh specially Sonali Bank Ltd. The study carried on has the following limitations:

The main constraint of the study is inadequate access to information, which has hampered the scope of the analysis required for the study.

- ✚ Lack of published materials.
- ✚ Some problems create confusions regarding verification of data.

- ✦ It was very difficult to collect the information from various personnel for their job constraint.
- ✦ Lack of knowledge and experience among the officials.
- ✦ As some of the fields of banking are still not covered by our courses, there was difficulty in understanding some activities.
- ✦ The time is insufficient to know all activities.
- ✦ And as it was my first work and inexperience was a problem. So there may be some personal mistake in the report.

Chapter 2

Overview of the organization

Status of the Bank

Sonali Bank Limited was incorporated in Bangladesh on 03 June 2007 as a Public Limited Company under Companies Act 1994. Formally this bank was incorporated as a nationalized commercial bank

named as Sonali Bank established by The Bangladesh Bank Order 1972 (Presidential Order no. 26 of 1972) and was fully owned by the Government of the People's Republic of Bangladesh. After incorporation dated 15 November 2007 Sonali Bank Ltd. has taken over the undertaking and business of Sonali Bank. The Bank has total of 1203 branches throughout the country including two overseas branches at Kolkata and Siliguri in India as on 13 November 2013.

Principal Activities of the Bank

The principal activities of the bank are to provide a comprehensive range of financial services, personal and commercial banking, trade and services, cash management, treasury, securities and custody services and perform Government treasury functions as an agent of the Bangladesh Bank. It offers various banking services such as personal banking, rural banking, international banking, industrial financing as well SME banking and Islamic banking (saving for Hajj). For its retail customers it offers savings, remittance and deposit products including savings accounts, daily profit accounts as well as education deposit, Medicare deposit, marriage savings deposit and rural deposit schemes.

Products and services offered (Home: Sonali Bank Limited, 2014)

Core business

<ul style="list-style-type: none"> • Corporate Banking • Project Finance • SME Finance • Remittance • Lease Finance • Consumer Credit 	<ul style="list-style-type: none"> • Trade Finance • Loan Syndication • Foreign Exchange Dealing • International Trade • NGO-Linkage Loan • Consumer Credit 	<ul style="list-style-type: none"> • Investment • Government Treasury Function • Money Market Operation • Rural and Micro credit • Capital Market Operation • Special Small Loan
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Fig 1: Core business of Sonali bank ltd.
Other business and services

<ul style="list-style-type: none"> • Government Treasury Bonds • Locker Service • A.T.M. Card 	<ul style="list-style-type: none"> • Utility Bills Collection • Ancillary Services • Merchant Banking
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Islamic banking services

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<i>Deposit Products</i>	<i>Investment Products</i>
<ul style="list-style-type: none"> • Al-Wadeeah Current Account (AWCA) • Mudaraba Savings Account (MSA) • Mudaraba Special Notice Deposit Account (MSNDA) • Mudaraba Term Deposit Account (MTDA) • Mudaraba Hajj saving Account (MHSA) • Mudaraba Sonali Monthly Deposit Scheme (SMDS) • Mudaraba Monthly Profit Scheme (MMPS) 	<ul style="list-style-type: none"> • Bai-Murabaha • Bai-Muajjal • Bai-Salam • Bai-Istisna • Hire Purchase Under Shirkatul Melk

Fig 2: other and Islamic activities of Sonali bank ltd.

Free Services provided by the Bank

The bank provides more than 21 types of free services on behalf of the government of Bangladesh through its rural and urban branches as part of their commitment to society. These services includes collection of utilities bills, payment of allowances to freedom fighters, old-aged people, meritorious students, widowed & acid burnt women and also collection of taxes and revenues on behalf of the government organizations.

Credit Risk Management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. To manage credit risk, the Bank applies credit limits to its customers and obtains adequate collaterals. Credit risk in the Sonali Bank Ltd.'s portfolio is monitored, reviewed and analysed by the Credit Risk Management (CRM).

CRM determines the quality of the credit portfolio and assists in minimizing potential losses. To achieve this objective, CRM formulates appropriate credit policies and procedures for the Bank to ensure building and maintaining quality credits and an efficient credit process

Sonali Bank Ltd. has established Asset-Liability Management Committee (ALCO) determine the maximum risk exposure. ALCO also assesses, recommends and controls cross border/country risk.

To manage the Non-Performing Loans (NPL), Sonali Bank Ltd. has a comprehensive remedial management policy, which includes a framework of controls to identify weak credits and monitoring of

these accounts.

Implementation of BASEL-II

To comply with International best practices and to make the Bank's capital more risk-sensitive as well as to build the Banking industry more shock absorbent and stable, Bangladesh Bank provides revised regulatory capital framework "Risk Based Capital Adequacy for Banks" which is effective from 1st January 2009. According to the BRPD Circular no-09 dated 31st December 2008, following specific approaches are suggested for implementing BASEL-II:

Standardized Approach for calculating Risk Weighted Assets (RWA) against Credit Risk;

Standardized (Rule Based) Approach for calculating RWA against Market Risk;

Basic Indicator Approach for calculating RWA against Operational Risk.

Under the Standardized Approach of the Risk Based Capital Adequacy Framework (Basel II), Credit Rating is to be determined on the basis of risk profile assessed by the External Credit Assessment Institutions (ECAIs) duly recognized by Bangladesh Bank.

Along with the existing capital adequacy rules and reporting Bangladesh Bank (ref. BRPD Circular no.10 dated 25.11.2002) Banks will start quarterly reporting as per the set of the reporting formats provided by Bangladesh Bank. Sonali Bank Ltd. Management is aware about guideline of Bangladesh Bank and prepared for implementing new capital Accord BASEL-II.

SWOT Analysis

Strengths

- ✚ Branches throughout the country to serve its customer.
- ✚ Very strong relation with Bangladesh bank.
- ✚ They have corresponded relationship with other banks so the bank can provide services of their customers.
- ✚ Strong local remittance management systems.
- ✚ They have strong relation between every team.

Weakness

- ✚ The services are very slow.
- ✚ Slow modernization due to its huge size.
- ✚ Low salary scale compared to industry.

Opportunities

- ✚ The bank can offer more innovative types of services than other banks
- ✚ Since Sonali Bank Ltd. has so many branches it can easily influence the banking sector.
- ✚ Being a large Bank it can provide large investment.

Threats

- ✚ Increase in the competition in banking sector.
- ✚ Increase in the use of modern technology and services like online banking, mobile banking, internet banking etc.
- ✚ About remittance business these days many banks are showing greater interest in the remittance business.
- ✚ Recent events like frauds and stealing where employees were found involved.

Chapter 3

Job description and methodology

Job description

Sources of Credit Investigation

The following are the sources of credit information

- ✚ Loan application.

- ✚ Financial statements (profit and loss account, Balance sheet, cash flow statement).
- ✚ Study of accounts.
- ✚ Market reputation.
- ✚ CRG.
- ✚ Report from CIB.
- ✚ Personal interview.
- ✚ Personal visit.
- ✚ Other sources, i.e.
 - ❖ Income tax statement
 - ❖ Registration.
 - ❖ Press report.
 - ❖ Revenue and municipal rent receipt register of Joint Stock Company.
 - ❖ VAT return.
 - ❖ Confidential report from fellow banks.

For investigation the manager or the officer who is the in charge of the credit department have to enquiry about

- ❖ Who is the borrower?
- ❖ Nature of business.
- ❖ Location/ site of the business.
- ❖ Living standard /living style of the Borrower.
- ❖ Experience in the business.
- ❖ Equity in the business.
- ❖ Purpose of borrowing.
- ❖ Duration of loan.
- ❖ Sources of repayment.
- ❖ Means and security offered.
- ❖ Physical verification of security.
- ❖ Profitability of the transaction.
- ❖ History of accounts operated by borrower.
- ❖ Market reputation regarding character, honesty, integrity etc.

Credit Risk Assessment

A thorough credit risk assessment should be conducted prior to the sanctioning of credit facilities. They must conduct necessary KYC (Know Your Customer) part on the customer and money laundering guidelines must be followed.

Following risk areas in the credit proposal should be addressed and assessed before sending to Head Office.

1. Borrower Analysis:
 - a. Share holding
 - b. Reputation

- c. Education
- d. Experience – success history
- e. Net worth
- f. Age etc.
2. Industry Analysis:
 - a. Industry Position/Threat/Prospect.
 - b. Risk factors pertaining to the industry.
 - c. Borrower's position / share in the industry.
 - d. Strength, weakness of the borrower compared to the competitors etc.
3. Supplier/ Buyer Risk Analysis
 - ❖ Concentration on single/few buyer/supplier is addressed.
4. Demand Supply position
5. Technical feasibilities / Infrastructural facilities
6. Management Teams Competence
7. Seasonality of demand
8. Debt to equity Ratio
9. Historical financial analysis:
 - ❖ An analysis of 3 years historical financial statements.
 - ❖ Earning – its sustainability.
 - ❖ Cash flow
 - ❖ Leverage
 - ❖ Profitability
 - ❖ Strength and reliability of Balance Sheet etc.
10. Projected Financials:
 - Sufficiency of cash flows to service debt repayment.
 - Debt Service Coverage Ratio.
11. Trade Checking:
12. Account conduct:

- a. For existing customer the repayment history, credit turnover, study of account statement
- b. If the customer is proposed to be migrated from other Bank, statement of account from present Banker is required

Allied deposit with our Bank.

Other business with our Bank.

13. Security:

- a. A current valuation of collateral security by Professional Enlisted Surveyor be obtained with photograph and site map. Collaterals within command area of the respective branch location are preferred. Third Party property and vacant land should be discouraged.
- b. Loans should not be considered based solely on collateral.
- c. Adequacy and extent of Insurance coverage should be assessed. Insurance Policy should be obtained from approved Insurance Company. Premium should be paid through Bank, duly stamped money receipt be obtained. Insurance Policy be held by the Bank. The Policy be renewed in time. Letter of authority be obtained from the customer to debit account to pay premium for renewal/enhancement of the policy.

14. Succession issue:

Margin, volatility of business, high debt (Leverage / gearing), over stocking, huge receivables with long aging, rapid expansion, new business line, management change, lack of transparency should be addressed.

15. Adherence to credit guidelines:

- a. It should be clarified whether the customer is agreeable to comply with guidelines in respect of regulatory requirement and Bank's policy requirement.
- b. Any deviation be clearly identified and maintained.

16. Mitigating Factors:

- ❖ Risk factors are identified and side by side mitigating factors of those risks should also be mentioned to justify the proposed facility.

17. Environmental factor.

18. Employment generation and contribution to the national economy.

Preparation of credit report

On the basis of investigation the branch manager will prepare a credit report as per format provided by their head office.

After preparing credit report banks ask for loan documentation.

Loan documentation

a. What is documentation?

As other commercial banks one of the main functions of Sonali bank is to extend credit facilities of its valued customers. The credit facilities are given against various types of securities. These are mainly:

Personal i.e. credit worthiness of the proposed borrower and guarantor.

Moveable i.e. FDR, shanchaypattrra goods and commodities balance of deposit A/C etc.

Immoveable i.e. land building etc.

Before rendering credit facilities bank has to create charge over the securities through a number of agreements, papers etc. which are called documents.

b. Purpose of document

The entire purpose of the document is that reliance can be placed upon the truth of the statement contained in them. Mainly three questions may be examined when a document is produced in the court. These are:

- ✚ Is the document genuine?
- ✚ What is it's contain?
- ✚ Are the statements in the document true?

The documents should correctly be taken by the bank in order to create required charges on the securities defectively in favour of the bank the proper and correct documentation is essential from the point of view of the safety of the bank's interest.

c. Steps of the documentation

For proper and correct documentation a banker has to go through the following steps:

- 1) Prepare a list of required documents
- 2) Verify the legal capacity of the executor
- 3) Affix properly valued adhesive stamp or type on a duly stamped paper
- 4) Execution
 - ✚ In presence of manager
 - ✚ In one sitting and with indelible ink
 - ✚ Any correction, alteration etc. must be authenticated with full signature
 - ✚ Correctly dated
 - ✚ If several pages execution must put their full signature in all pages

5) Registration.

Loan classification

Monitoring can be done through loan classification. Loan is mainly classified to understand that which loan account are performing well (regularly interest payment, timely repayment, and timely renewal etc.) and which are not. In classifying the loan and advance there are two classes in the loan review practiced in SBL. They are as follows as the table.

- ❖ **Unclassified:** The loan account is performing satisfactory in the terms if its installment and no overdue is occurred.
- ❖ **Classified:** The loan account is not performing satisfactory in the terms of installments and overdue is occurred. These types of loan need close monitoring to stop the deteriorating position.
 - ✚ **Substandard:** The main criteria for a substandard advance are that despite these technicalities or irregularities no loss is expected to be arise for the bank. These accounts will require close supervision by management to ensure that he situation does not deteriorate further.
 - ✚ **Doubtful:** This classification contains where doubt exists on the fully recovery of the loan or advance but cannot quantifiable at this stage.
 - ✚ **Bad & Loss:** A particular loan or advance fall in this class when it seems that this loan or advance is not collectable or worthless even after all security has been exhausted.

In the following table the criteria to be fall in classified category are summarized:

Substandard	Doubtful	Bad & Loss
3 months and above but less than 6 month.	6 month and above but less than 12 month.	Not recover within more than 12 months.

Tab 1- Summarization of classified credit

Methodology of the study

The following methodology was used for the study:

Both primary and secondary data sources are used to generate this report. Primary data sources are scheduled survey, informal discussion with professionals and observation while working in different desks. The secondary data sources are annual reports, manuals, and brochures of Sonali Bank Ltd. and different publications of Bangladesh Bank.

To identify the implementation, supervision and monitoring practices interview with the employee and extensive study of the existing file and practical case observation was done.

Sources of data

To perform the study data sources are to be identified and collected, the data are to classified, analyzed, interpreted and presented in a systematic manner.

a. Primary Sources:

Face to face conversation with the official staffs.

- ✦ Practical desk work.
- ✦ Questionnaire
- ✦ Simple Depth interview technique was used by asking number open-ended questions to collect the information.
- ✦ Relevant file study as provide by the concerned officer.

B.Secondary Sources:

- ✦ Financial Statements & Auditors' report of Sonali Bank Ltd., 31 December 2014.
- ✦ Disclosure on Risk Based Capital (Basel-II), December 2012.
- ✦ Annual Reports (2011, 2012 and 2013) Sonali Bank Ltd. Pabna Br.
- ✦ Risk Management Guidelines for Banks, February 2012, Bangladesh Bank.
- ✦ Credit Risk Grading Manual for banks, June 2007, Bangladesh Bank.

Chapter 4

ANALYSIS AND FINDINGS

Analysis

To understand how effective CRM practices is I have identified some aspects which are core to risk management. The analysis was carried out in the following aspects:

- Process of credit risk management in Sonali Bank ltd.
- Credit risk management practices followed in Sonali Bank ltd.

- The credit risk faced by the bank.
- Methods used to mitigate credit risk.
- Overall performance of Sonali bank LTD. at Pabna br.

Processes and practices of credit risk management

Ø Credit risk in the Sonali Bank Ltd.'s portfolio is monitored, reviewed and analysed by the Credit Risk Management (CRM) to minimize potential losses and ensuring efficient credit process.

Ø They have identified the types of risks and disclosed in the BASEL II disclosures according to the BRPD Circular no-09 dated 31st December 2008.

Ø Credit risk faced by the bank is properly identified which includes the following:

- ❖ The gross credit risk exposure has grown to BDT 37,814.44 crore as of December 2012.
- ❖ Credit quality is standard due to their sound credit risk management system.
- ❖ They have made sufficient provisions for NPAs, NPIs and depreciation.
- ❖ Volume of off-balance sheet exposures is BDT 4,438.83 crore.

Ø The bank decides on how much risk to take based on their risk appetite as well as government guidelines.

Ø Sonali Bank Ltd. has its own Credit Risk Management guidelines in terms of Core Risks Management guidelines of Bangladesh Bank. The Bank also follows other instructions/guidelines of Bangladesh Bank in this regard.

Ø To manage the Non-Performing Loans (NPL), Sonali Bank Limited has a comprehensive remedial management policy, which includes a framework of controls to identify weak credits and monitoring of these accounts constantly.

The credit risk faced by the bank

The Movement of Non-Performing Assets (NPL) as disclosed in Basel II shows increase in outstanding Loans & advances. Closing balance of non-Performing loan of December 31, 2012 was BDT 13220.50 crore whereas opening balance was BDT 6607.53 crore. Reductions in outstanding amount of that year were BDT 846.84 whereas additions were about BDT 7459.81 crore.

To manage the Non-Performing Loans (NPL), Sonali Bank Ltd. has comprehensive remedial management policy, which includes a framework of controls to identify weak credits and monitoring of these accounts.

Methods used to mitigate credit risk.

- ❖ Based on the policies strategies are developed by the bank to mitigate credit risk.

- ❖ Credit risk is mitigated by appropriate credit appraisal systems before lending and proper collateral or guarantees are taken to hedge the risk.
- ❖ Risk management system is put in place for better management of credit risk and a risk rating is installed which is in compliance with BB guidelines.
- ❖ The risk management function is reviewed periodically usually every quarter.
- ❖ The rating system for term loans is annual.
- ❖ Investment is made in different sectors to diversify risk. Disclosure on Risk Based Capital (Basel-II)" (December 2012) shows Industry or counterparty type distribution of exposures:

So in short, the bank's board of directors and senior management are responsible for ensuring that the bank has appropriate credit risk assessment processes and effective internal controls. Bank has a system in place to reliably classify loans on the basis of credit risk. Bank's credit risk assessment process for loans provides the bank with the necessary tools, procedures and observable data to use for assessing credit risk, accounting for impairment of loans and for determining regulatory capital requirements.

Overall performance of Sonali bank LTD. at Pabna br.

Capital structure

Qualitative Disclosures (Disclosure on Risk Based Capital, Dec 2013)

Core capital of Sonali Bank Limited comprises of fully paid up capital against ordinary shares, statutory reserve and general reserve created out of profit, retained earning etc, and supplementary capital include General provision & assets revaluation reserve. Eligible Capital of Sonali Bank Limited on the basis of Audited Balance Sheet of 31st December 2013 has been calculated as per Basel-II guidelines as shown below.

Quantitative Disclosures

	Eligible Capital	(Tk. in Crore)
	Tier-1 Capital:	
	(I) Paid up Capital	1125.00
	(II) Statutory Reserve	592.49
(a)	(III) General Reserve	4.70
	(IV) Retained Earnings	-1873.85
	Total Tier-1 Capital	-151.66
(b)	Total Tier-2 Capital.	1473.93
(c)	Deductions from Capital.	182.85
(d)	Total eligible Capital.(b-d)	-334.51

Tab-2: Quantitative disclosure

Capital Adequacy (Disclosure on Risk Based Capital, Dec 2013)

Qualitative Disclosures

Sonali Bank Limited is very much aware of maintaining Capital to support its current and future activities. A three year capital growth plan up to 2015 has also been prepared. The government (owner of the bank) has been approach to provide additional capital amounting to Tk. 3375.00 crore to meet the capital requirement of the bank.

Quantitative Disclosures (Tk. in Crore)

Capital Requirement for Credit Risk	2823.11
Capital Requirement for Market Risk	287.02
Capital Requirement for Operational Risk	430.53
Capital Adequacy Ratio (CAR)	-0.94
Tier-1 Capital to RWA	-0.94

Tab-3: Quantitative Disclosures

Credit Risk (Disclosure on Risk Based Capital, Dec 2013)

Qualitative Disclosures

Sonali Bank Limited has its own Credit Risk Management guideline in terms of Core Risks Management guidelines of Bangladesh Bank. The Bank also follows other instructions/guidelines of Bangladesh Bank in this regard.

Sonali Bank Limited constantly monitors, reviews and analyses its credit portfolio with a view to improving ability of credit portfolio, minimizing potential losses and ensuring efficient credit process.

To manage the Non-Performing Loans (NPL), Sonali Bank Limited has a comprehensive remedial management policy, which includes a framework of controls to identify weak credits and monitoring of these accounts constantly.

Quantitative Disclosures

Total gross credit risk exposures broken down by major types of credit exposure.	BDT
Balance Sheet Exposures (as per Audited Balance Sheet)	(in

1) Cash	Crore)
	602.15
2) Claims on Bangladesh Government and BB	11964.18
3) Claims on Public Sector Entities (Other than Government) in Bangladesh	7405.36
4) Claims on Banks & NBFIs	4149.55
5) Claims on Corporate	5861.48
6) Claims under Credit Risk Mitigation	1268.21
7) Claims categorized as retail portfolio & SME	3734.29
8) Consumer Finance	402.76
9) Claims fully secured by residential property	32.54
10) Past Due Claims (Risk weights are to be assigned net of specific provision)	5822.42
11) Unlisted equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in banking book	558.37
12) Investments in premises, plant and equipment and all other fixed assets	2312.24
13) All other assets	17828.47
Off-Balance Sheet Exposure	
1) Claims on Bangladesh Government and Bangladesh Bank	855.60
2) Claims on Public Sector Entities (Other than Government) in Bangladesh	2910.40
3) Claims on Banks & NBFIs	24.00
4) Claims on Corporate	223.80
5) Claims against retail portfolio & SME	425.03
Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	
1) Agricultural / Rural Credit	2927.90
2) Micro Credit	982.04
3) Industrial Credit	8221.52
4) Agro-based Industrial Credit	2344.69
5) International Trade	14004.37
6) SME Finance	293.09

7) General Advance & Others	9041.10
Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	
Loans and Advances	
On demand	3530.92
Not more than 3 months	902.02
More than 3 months but not more than 1 year	15117.01
More than 1 year but not more than 5 years	4060.72
More than 5 years	10222.66
Bills purchased and discounted	
Not more than 1 month	3056.50
More than 1 month but not more than 3 months	266.31
More than 3 months but not more than 6 months	426.15
More than 6 months	232.42
Gross Non Performing Assets (NPAs)	
Non-Performing Assets (NPAs) to Outstanding Loans & advances	
Movement of Non-Performing Assets (NPAs) (Loans & advances)	
Opening balance	6607.53
Additions	7459.81
Reductions	846.84
Closing balance	13220.50

Movement of specific provisions for NPAs (Loans & advances)	BDT (in Crore)
Opening balance	3756.77
Less: Loans written off which fully Provided for	90.92
Add: Recovery Loans which was written off earlier	-
Add: Specific Provisions made during the year	3701.67
Closing balance	7367.52

Tab-4: Balance Sheet Exposures (as per Audited Balance Sheet).

Findings

Finding of the Study

The findings of this study are summarized below:

- The credit risk management process of Sonali Bank Ltd. is quite commendable. Systematic and timely monitoring and appropriate documentation are tried to be maintained.
- Customer satisfaction level is quite good. Informal conversation with some customers reveals that they approve the credit evaluation and management process of Sonali Bank Ltd.
- Governments orders like account opening for 10 taka, etc. increases cost. SME loans for farmers without collateral not only increases credit risk but also costly for banks but return on these services are low.
- Hall-Mark scam exposed major weakness in top management.
- Filing procedure is not maintained in a definite and clear manner. It is difficult to locate the documents in a chronological and sequential manner. A definite practice, though mentioned in the credit policy is not always maintained by the credit officials.
- The credit sanction and disbursement procedure is quite lengthy.
- Online and Networking system in Sonali Bank Ltd. has to be improved.
- It uses software like RMS+, and Baxibank 5000 that runs on windows XP which is quite out dated and security system appears vulnerable to cyber-attacks.

Chapter 5

Recommendation and conclusion

Recommendations

The failure of commendable banks occurs mainly due to bad loans, which occurs due to inefficient management of the loans and advances portfolio. Therefore any banks must be extremely cautious about its lending portfolio and credit policy. In the light of the above findings, following recommendations are proposed:

- The credit sanction procedure should be made quicker since competition is very hard in today's business world. People do not want to wait for three to four weeks on an average to get a loan which is even protected by security.
- Decision making process can be made more decentralized.
- The bank should emphasize on reducing the classified and non-performing credits by concerted efforts.
- In the credit department, strict supervision is necessary to avoid loan defaulters. Bank official should do regular visit to the projects.
- Central monitoring system should be more active to maintain classified loan to a minimum level.
- Filing is a very important component of proper documentation. It has to be dealt with importance.
- Salary scale should be increased to motivate extremely dissatisfied employees and to reduce misconduct.
- Vaults security should be increased.
- To attract more clients should sought new marketing strategy.
- An uninterrupted network system has to be ensured. It will save the officials from much hassle and will save time.
- Politically influenced Lending or project finance should be checked.

Conclusion

Sonali Bank Ltd. is much different in any terms. Its activities are vast and in cases unique to any other bank. Its deposits and loans are huge compared to other banks. It finances government projects, provides unique services to people in need, even in places it works as central bank. This Bank often makes decision for the welfare of general public despite risk of credit exposure.

The bank has established a sound credit risk management and credit risk mitigation policy. Compliance with Basel II norms helps the Bank to improve their profitability through better credit risk management systems.

In recent years, the bank has been exposed to credit risk due large scale loan defaults. Top managements malpractice and mismanagement caused less return on investment. Recovery from top 20 loan defaulters in 2013 was only 37 percent. As for non-performing loans recovery, Sonali bank Ltd. achieved 50 percent of the target. (The Daily Star, March 27, 2014)

From the discussion in this report, it has become clear that credit risk management is a complex and ongoing process and therefore Banks or any financial institutions must take a serious approach in addressing these issues.

Glossy

Credit: In banking terminology, credit refers to the loans and advances made by the bank to its customers or borrowers.

Credit Risk: Credit risk arises from the potential that a bank's borrower will fail to meet its obligations in accordance with agreed terms. Credit risk also refers the risk of negative effects on the financial result and capital of the bank caused by borrower's default on its obligations to the bank

Credit Risk Management: Risk management contains

- ❖ Identification,
- ❖ Measurement,
- ❖ Aggregation,
- ❖ Planning and management,

As well as monitoring of the risks arising in a bank's overall business

Guidelines for CRM by Bangladesh Bank

In February 2012 Department of Off-site Supervision of Bangladesh Bank issued "Risk Management guidelines for Banks" (Bangladesh Bank, 2012) for all scheduled banks in Bangladesh. These guidelines are issued by Bangladesh Bank under section 45 of 'ব্যাংক কোম্পানি আইন, ১৯৯১' and introduced to provide a structured way of identifying and analyzing potential risks, and devising and implementing responses appropriate to their impact. Summary of Some of the important CRM guideline are presented here.

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APPENDICES

Data Collection Form both From Customer and Employee

1. Questionnaire for customer

Part A

Date

Name

Designation

Organization

Part B

- 1. What do you think about loan sanction facilities of Sonali bank?**
- 2. Are you satisfied with the procedure of loan sanction?**
- 3. What your opinion about the customer services of Sonali bank?**
- 4. Do you think SBL follow the rules and regulation which is provided by Bangladesh Bank?**
- 5. What do think about technological advancement in transaction of SBL?**
- 6. Do you think credit policy of SBL is effective?**
- 7. How long it takes to sanction a credit in SBL?**
- 8. How do you feel in working environment of SBL?**

2. Questionnaire for employee

Part A

Date

Name

Designation

Branch name

Part B

- 1. Do you know all the rules and regulation for credit sanction?**
- 2. Do you follow the rules of Bangladesh bank?**
- 3. Do you properly fill up the procedure of credit sanction?**
- 4. Do you fill up the KYC form?**
- 5. How you collect the unclassified loan?**
- 6. Is this department's working environment risky or not?**
- 7. How long you work in this department?**
- 8. Which loan is not so much risky, classified loan or unclassified loan?**
- 9. How many time audits come to check this procedure?**