



Inspiring Excellence

Internship Report

Report On

Credit risk management practice in non-banking financial institutions: a study on Lanka Bangla Finance limited

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Letter of Transmittal

29th August, 2016

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Subject: Submission of Internship Report on “Credit Risk Management Practice in Non-Banking Financial Institutions: A Study on Lanka Bangla Finance Limited”

Dear Sir,

I have accomplished my internship at Credit Risk Division of Lanka Bangla Finance Limited and hereby presenting my internship report entitled “Credit Risk Management Practice in Non-Banking Financial Institutions: A Study on Lanka Bangla Finance Limited”.

This Internship program gave me an opportunity to have a factual exposure to the working environment of Lanka Bangla Finance Limited (LBFL) situated at Kemal Ataturk Avenue, Banani, Dhaka. I have acquired a decent knowledge on its Loan operations and in the report I have mentioned briefly about general activities along with advanced funding products, concentrating mainly on the procedure of approval of certain loans. I hope this report portrays my hard work.

With your kind supervision and guidance, I believe that the knowledge and experience I gathered during internship period would help me in the future. I will always be available for any clarification that you may require.

Sincerely,

Amzad Sadik Abid

ID: 12304010

BRAC Business School.

Acknowledgement

I am grateful to God for keeping me bodily and mentally well to prepare this report. I am thankful to my parents, without whom I wouldn't have reached so far. To make this report a success, I am obliged to many whose suggestions and cooperation were really appreciable.

I am thankful to my instructor – Saif Hossain who provided me a proper guideline for making this report on the first place. My jovial thanks to MD Sheikh Daial (Eleas), First Assistant Vice President (FAVP) – Credit Risk Management Division and also my supervisor, for being so nice and supportive throughout my internship period.

I am also grateful to all the officers of Credit Risk Management Division for being considerate and caring. They always provided me with the required materials and all the support to complete my internship report successfully.

Finally, I would like to acknowledge BRAC University and its gifted faculty members for their proper guidance and supervision. It is an honor to be able to complete my BBA degree from such a reputed institution.

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Executive Summary

The report is prepared on the basis of three months practical experience at Lanka Bangla Finance Limited (LBFL). My internship report is on “Credit Risk Management Practice in Non-Banking Financial Institutions: A Study on Lanka Bangla Finance Limited”. To build this report I have tried to collect as much related information as possible. I included an overview and a brief discussion of overall activities to get a preliminary idea of the services of Lanka Bangla Finance Limited. Being a joint venture financial institution, it provides a wide range of services to its customers. The Core business of this organization is different types of loan products which is discussed in the report. Actually I have organized this report to represent background of LBFL, their available product & service facilities, their efficiency to serve customer, and their terms and conditions for loans. My concentration was to show the whole process of Credit Risk Management Division. A major portion of the report describes the overall process of approving loans as well. The concluding portion of this report includes my suggestions along with a summary of three months of internship.

CHAPTER 1

COMPANY OVERVIEW

AND

OPERATIONAL AREAS



2.1 Profile

Name	: Lanka Bangla Finance Limited
Year of Establishment	: 1997 as Vanik Bangladesh Limited and renamed Lanka Bangla Finance Limited in 2005.
Type of Business	: Joint Venture (Public Limited)
Authorized Capital	: Tk 1000.00 million
Paid up Capital	: Tk 442.00 million
Business Segment	: Non-Banking Financial Service

See more at <https://lankabangla.com/lbfl/Pages/AboutUs/Corporate-Profile.aspx>

2.2 Historical Background

According to the information given on the website, Lanka Bangla Finance Limited started its journey long back in 1997 as a joint-venture financial institution with multinational collaboration having license from Bangladesh Bank under Financial Institution Act-1993. Now Lanka Bangla is the country's leading provider of integrated financial services including corporate financial services, retail financial services, SME financial services, stock broking, corporate advisory and wealth management services. Under the broadest umbrella of products and service offerings, it is the loan financial institution to operate credit card (MasterCard and VISA) and also provide third party card processing services to different banks in Bangladesh. Lanka Bangla is a primary dealer of government securities since November 2009. Since 2006 Lanka Bangla has been listed in both DSE & CSE in Bangladesh.

Lanka Bangla Finance Limited is one of the largest private financial institutes in Bangladesh. Lanka Bangla Finance Limited offers the entire spectrum of financial services to customer segments covering corporate financial services, SME financial services, and Personal Financial Services and Deposit schemes. Lanka Bangla practices participatory management and adheres to industry best practices in all endeavors and serves with wide operational periphery covering

major business hubs of the country. Lanka Bangla operates in a centralized administrative framework

through cutting edge technological environment. Lanka Bangla is the market leader in the capital market services and giving all-out effort to develop an efficient, vibrant and transparent capital market in Bangladesh. Through our subsidiary, Lanka Bangla Securities Limited we are providing top notch broking services and leading the industry with cutting edge trading, top rate research and customer service. Another subsidiary, Lanka Bangla Investments Limited is a premier investment bank in the country providing corporate advisory, issue management and portfolio management services. The other subsidiary, Lanka Bangla Asset Management Company Limited is providing professional wealth management services.

It recently have gone through a business process reengineering to build capacity to offer our clients superior experience than any time ever. The company now operates in centralized administrative framework through cutting edge technological environment. Lanka Bangla is serving with wide operational periphery covering major business hubs of the country. It has commitment maintaining disclosure of information has garnered recognition as Lanka Bangla has been the recipient of the National Award for Best Published Accounts and Reports awarded by the Institute of Chartered Accountants of Bangladesh (ICAB) for the past six years.

See more at <https://lankabangla.com/lbfl/SitePages/AboutUs/history.aspx>

Lanka Bangla also has four subsidiaries companies:

- Lanka Bangla Securities Limited.
- Lanka Bangla Investments Limited.
- Lanka Bangla Asset Management Company Limited.
- Lanka Bangla IT Investment Limited.

2.3 Directions and Management

A 12 member board of directors, including the chairman and Managing Director oversees the affairs of the company. The functions of different operational divisions are carried out under direction and surveillance of Head of the Division and his Deputy. In 2016, the bank had 15 branches. The registered head office of LBFL is at Dhaka. The company conducts traditional and specialized non-banking financial functions.

2.4 Vision

To be the most preferred financial service provider in creating, nurturing and maximizing value to the stakeholders, thereby, GROWING TOGETHER.

2.5 Mission

- Be a growth partner for our customers, ensuring financing and superior experience.
- Maintain a culture of meritocracy in the DNA of the company.
- Be sustainable and ensure quality returns to our valued shareholders.
- Uphold efforts to develop our community.

2.6 Core Values

LBFL has strong values that are well embedded in our culture. Our values create the following goals to help us deliver our strategy:

- Cherish a sense of ownership
- Be customer centric
- Grow as a team
- Act with Integrity and Professionalism
- Deal with respect.

See more at <https://lankabangla.com/lbfl/SitePages/AboutUs/history.aspx>

2.7 Achievements and Recognitions

Incorporation of the Company	5th November, 1996
Commencement of Business	5th November, 1996
Registration of First Subsidiary (LankaBangla Securities Limited)	3rd July, 1997
Licensed as Financial Institution by Bangladesh Bank	30th October, 1997
Signing of First Lease Agreement	30th March, 1998
Issuance of First Credit Card	16th August, 1998
Launching of MasterCard	5th September, 2005
Listing on Dhaka Stock Exchange	17th October, 2006
Listing on Chittagong Stock Exchange	31st October, 2006
Trading of shares in Stock Exchanges	1st November, 2006
Commencement of Operation of Chittagong Branch	10th February, 2007
Registration of Second Subsidiary (LankaBangla Asset Management Company Ltd.)	16th July, 2007

First disbursement of Domestic Factoring	11th December, 2007
First disbursement of Mortgage Loan	18th February, 2008
Licensed as Primary Dealer	23rd November, 2009
Issuance of First VISA Card	24th November, 2009
First Participation in the Auction of Govt. Securities as Primary Dealer	1st December, 2009
Registration of Third Subsidiary (LankaBangla Investments Ltd.)	29th March, 2010
Approval of Right Issue by SEC	31st January, 2012
Signing of Agreement with Leads Corporation for Bank Ultimus (CBS)	10th January, 2012
Best It use award	2009
Overall Winner(all nine Categories) Safa Bpa Award	2014

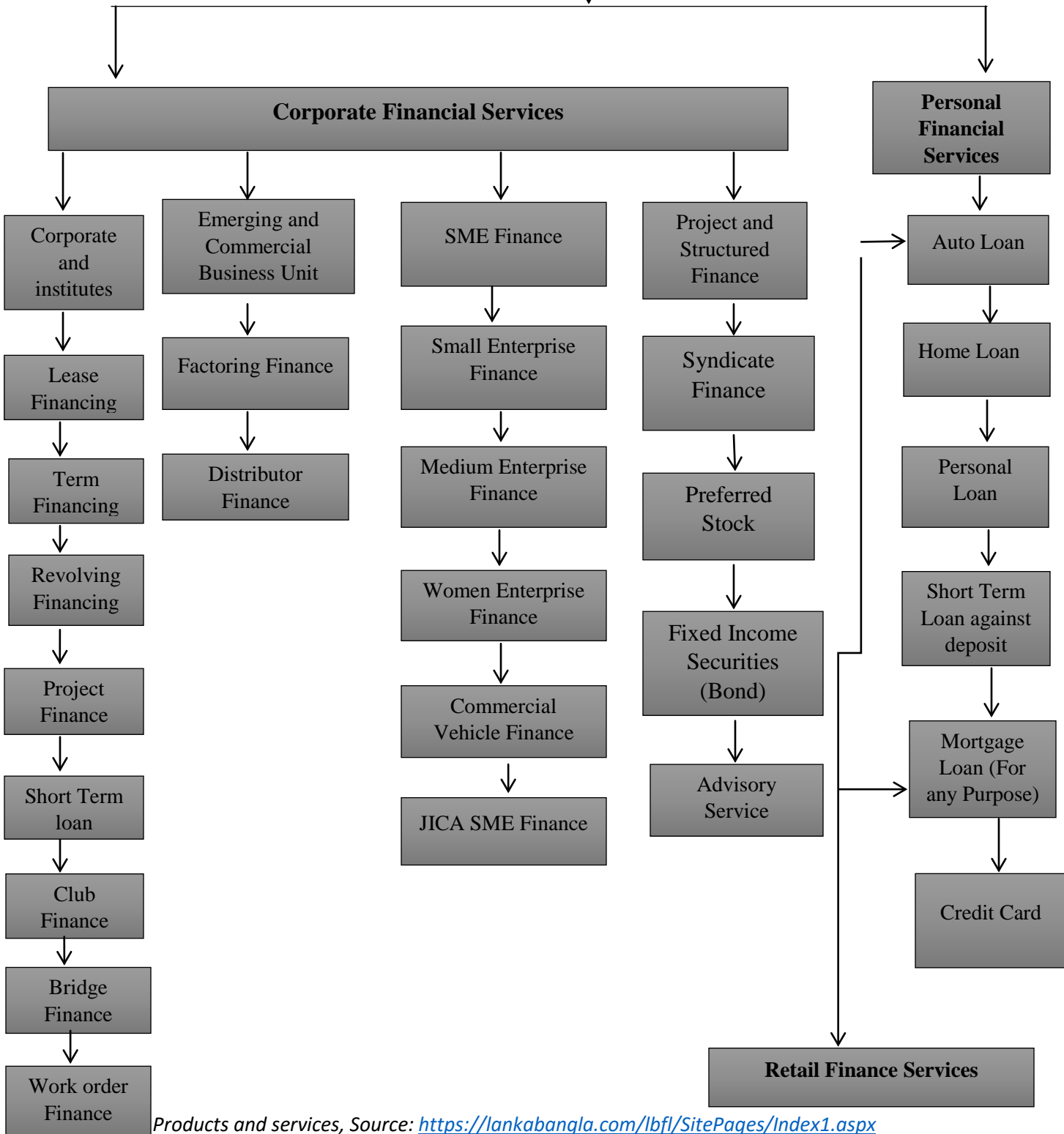
Table 1: Achievements and Recognitions,
Source:<https://lankabangla.com/lbfl/Pages/AboutUs/Achievements.aspx>

2.8 Branches of Lanka Bangla: Lanka Bangla has widened their operational network by opening branches in Chittagong (Agrabad and Khatungonj), Sylhet, Narsingdi, Comilla and Jessore. Few more branches have already opened (Mymensingh, Bogra) and few more will open. All of the Branches are led by corporate office of Banani.

2.9 Future expansion plan: LBFL is providing long-term value to their people, customers, shareholders and the community. Their strategic priorities remain to expand portfolio. They mainly focus on core product portfolio, manage balance sheet prudently, simplify processes to reduce cost, create a sustainable brand, nurture their human resources to deliver the best and uphold the livelihood of their community. It has a good corporate governance practices. These are their best thing or Strength of Lanka Bangla Finance Limited that's why people prefer more them. Lanka Bangla believes that strategic priorities in this manner will enable flawless execution of the medium term strategic plan. Going forward, Retail and SME financial services would be their prime focus in the leading portfolio. They are keen to finance various initiatives especially start-up enterprises as well as ones looking to scale up. They are planning to expand their business horizon in major cities or township of the country. While they engage in doing business, they will be maintaining strict compliance and good governance in norms and regulations to ensure long term sustainability of the company. They will be engaging more on social ventures and community development. Putting priority in ecological balance of the environment, they plan to grow together with their stakeholders.

2.10 Products and Services:

Product and Services of Lanka Bangla Finance Limited



Products and services, Source: <https://lankabanqla.com/lbf/SitePages/Index1.aspx>

2.11 Company Organogram:

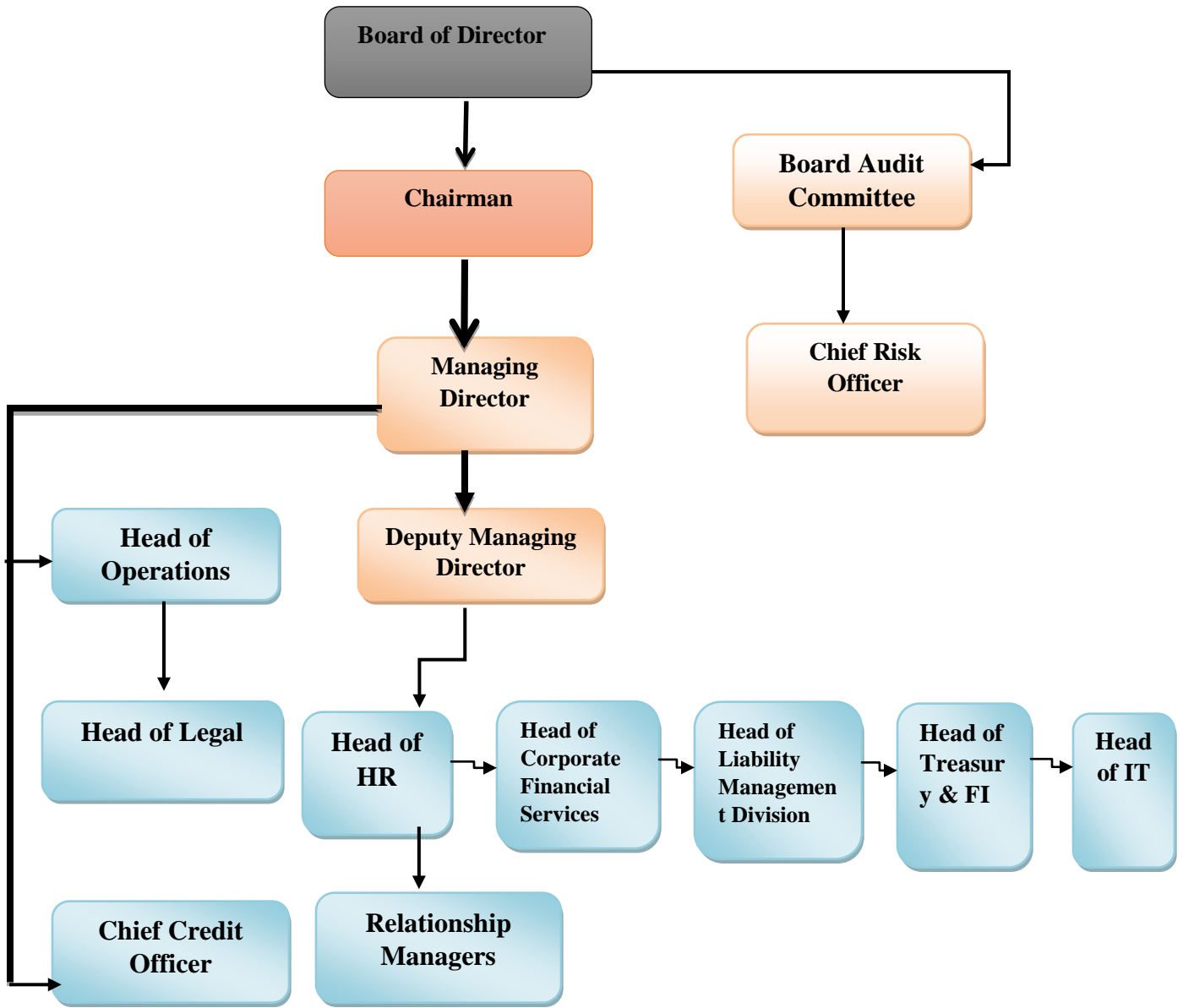


Figure 2: Company Organogram

2.12 Operational Areas of LBFL:

The mainstream (revenue generating) divisions of Lanka Bangla Finance Limited are Credit Risk Management Division (CRM) and Credit Card Division. LBFL mainly Operates in the following areas –

- ✓ Auto Loan
- ✓ Personal loan
- ✓ Home loan
- ✓ Credit Card
- ✓ SME Loan
- ✓ Corporate Finance

2.12.1 Credit Card: LBFL started its Credit Card Operations with its own brand ‘Vanik’ during the year 1998. LBFL (previously known as VBL) is the only company among the Non-Bank Financial Institutions (NBFIs) to launch the first indigenous credit card. Since then customer base has exceeded 15,000 and merchant (shops, hotels etc. who accepts credit card) base over 2800.

Credit Card Department of LBFL provides two types of Credit Cards – a) Gold Credit Card

b) Classic Credit Card

The distinguishing feature for these two Cards is basically in the salary or income structure requirement. The minimum fixed monthly income requirement for Classic Cardholder is Tk15,000 or Security Deposit of Tk 50,000 and for a Gold Cardholder is Tk 50,000 fixed monthly income or a Security Deposit of Tk 200,000. Credit card operations were expanded to Chittagong & Cox's Bazar in 2003. In September 2005, the Company started issuing MasterCard Credit Card – an internationally reputed brand, with more features and benefits to the customers.

Credit Card offered by LBFL, also an indigenous domestic Credit Card has got technical back up from Golden Key Credit Card Company of Sri Lanka. The product is unique to other international cards in many respects. They can streamline product attributes anytime to suit the requirements of the customers.

2.12.2 Auto loan: Auto Loan/Lease is a term loan/lease facility for purchasing vehicle for individual or institutional use & the vehicle is registered & insured in favor of Lanka Bangla Finance Limited (LBFL) or jointly with LBFL and applicant, may be fully or partially secured by Term Deposit Receipt. Auto Loan is one of the popular schemes of Lanka Bangla. A vast number of individuals and institutions have already availed the benefits of car loan scheme, with terms of the loan being tailored to the needs of the borrower. LBFL also have contacts in number of well-known Car Show-Rooms who have wide selection of Brand new and reconditioned cars. Customers are often get to know about car loan schemes from there. With their attractive car loan package, customers are able to repay the loan according to the customers' convenience.

2.12.3 Personal loan: Personal Loan is a term loan facility, which helps to meet the immediate personal necessities for any purpose. So a person never has to compromise with all that life has to offer. Personal loan is mainly provided for Household purchase, Home Renovation, Loan Takeover, Marriage Purposes, Children Education & finally for Medical Emergencies. Besides appropriate guidelines are available and some waiver can be available for the exceptionally high profile Clients.

2.12.4 Home loan: Home is a dream of a person that shows the quantity of efforts, sacrifices of luxuries and above all gathering funds by little to afford one's dream. Home is one of the things that everyone wants to own. Home is a shelter to person where he rests and feels comfortable. A new home brings with it new hopes, joys and emotions. At Lanka Bangla, home loan product is customized to provide solutions with flexible option, guidance and helping one to fulfill the housing needs. Exceptionally different types of segments are available for home loan purposes.

2.12.5 SME Loan: The full-fledged SME department of LBFL is a new wing which started its journey from 1st march 2010. There is no specific definition of SME loan. However the loan products differ in terms of amount and time. SME loan is mainly provided to small manufacturers, retail and wholesale traders, and service companies which need small amount of financing, agro

based businesses, woman entrepreneurs etc. For SME loan, the loan amount ranges up to 20 million. To encourage clients to take small loans (less than 10 lac) minimum security is required. Amount greater than that is financed with security like lien of inventories, business space etc.

Loan amount equal to or greater than 4 million is normally financed with lien or mortgage of lands. The interest rate on SME loan varies from product to product ranging from 10% to 18%. There is a special safeguard feature in SME financing which is known as Bangladesh Bank Refinancing Scheme. To encourage SME sector Bangladesh Bank undertakes refinancing for some of the loans. Loan under refinancing scheme has very small interest rate normally 9% to 10%. SME loan is provided for 24 to 72 months. While providing this type of loan, the selection criteria is mainly profitability and Debt Burden Ratio (DBR) of the client. The acceptable DBR rate is 60%.

2.12.6 Corporate Finance: Corporate Finance is another key business of LBFL. The activities of Corporate Finance Department concentrate on following services–

- > Mergers and Acquisition Activities
- > Financial Restructuring
- > Syndication of Loans
- > Placement of Equity Capital and Debt Instruments
- > Venture Capital Financing
- > Financial and Corporate Advisory Services

The legacy of LBFL is rich with participation in financing projects having social commitments both in service and manufacturing sector.

CHAPTER 2

ACTIVITIES UNDERTAKEN

3.1 Work Related: I started my internship program in Lanka Bangla Finance Ltd, Head office on 18th April 2016 and it ended in 17th July 2016. In LBFL I worked under Credit Risk Management Division. Here, besides other work I was allowed to work with loan Files. They usually do not let interns handle the loan files. This is because loan files deal with large sum of money and requires thorough verification and processing. Interns are very prone to making mistakes because they do not receive any special training when they start working for LBFL. But they also never hold an intern responsible for their action rather it is their supervisor who is held responsible for their actions. So they try to keep interns off from handling sensitive files. This internship program provides me practical experience & knowledge in this department. However, it has taken few weeks to become comfortable with the total operation of CRM department of Lanka Bangla completely within a short period of time.

For the first 2 weeks I was given following responsibilities:

(a) Pre-screening of credit card files:

- To check all legal documents for verifying the source of fund;
- To take occupational and professional details;
- To check whether the client has to fill up CAF(Client Acknowledgement Form), KYC and CFF (Client Feedback Form);
- To check attached pictures
- To check the Legal Documents that applicants need to provide that are:
 1. For individual Fund
 - b) Applicant's NID (Verify the Permanent Address)
 - c) Nominee's NID
 - d) TIN (If Available)
 - e) Any cheque/instrument photocopy belongs to the deposited amount;
 - f) Visiting Cards Photocopy (If available)
 - g) Individual Trade License's Photocopy
 - h) Passport in absence of nominee's NID
 - i) Date of birth
 - j) District of birth

- k) Current job status / business
- (b) Checking Clients Acknowledgement Form: Here I needed to check name of the client, amount, type of product, interest rate, maturity date, do the customer want to auto renew the fund after maturity.
- (c) Checking Know your customer profile: KYC form contains significant information about the background of the client. For this reason, I check all the valid information about the client if, there was any information missing I asked Relationship Officer to collect it.
- (d) Maintaining MIS of loan: After 2 weeks, I was transferred to MIS section of CRM and I was given instruction to maintain MIS of personal loan, auto loan and home loan. These tasks are a bit more sensitive as they are directly related with the management decision. They are described below:
- My duty started with task of collecting the assigned tasks that are being performed by the analysts. Then collecting their assigned tasks, my duties was to make a summary of the assigned tasks how much loans will everyone process on the day and report it to the Loan Unit Head.
 - Second task was to update the personal loan, auto loan and home loan filling up of the entry of sent to analyst date, final decision status, final decision date and analyst name in a Microsoft excel sheet. If file are query meet or re-submitted then it has to fill up query meet or re-submission date on the previous working days.
 - Thirdly, throughout the day I had to receive fresh loan files from relationship officers and besides putting those in the daily register excel sheet I had to give Credit Management Software (CMS) entry of the fresh files according to the date I receive them.
- (e) Updating Security Clause: If a loan is granted by the analyst he/she make an appraisal sheet approving the loan, that sheet is also known as Security Clause. My responsibility was to update the excel sheet according to the appraisal after a loan is approved. A standard appraisal sheet includes approved loan amount, interest rate, tenure of payment, approval authority, guarantor information, amount of installment and any exceptions in case of any conditions arose.

CHAPTER 3

PROJECT DESCRIPTION

(INTRODUCTION)

1.1 Background

Since the institutionalization of flow of fund system financial institutions have been playing important roles in the development of an economy by directing flow of fund in an efficient manner. Though traditionally banks are considered as more important player in this sector in the modern context Non-Bank Financial Institutions are also in the limelight for their more customized service in the financing sector.

This financial system comprises banks and non-bank financial institutions (NBFIs). Both banks and financial institutions are engaged in mobilizing fund from surplus unit to deficit unit of the economy. Lanka Bangla Finance Limited (LBFL) was originally established as a joint venture company between Bangladesh and Srilanka with the name "Vanik Bangladesh Limited" in the year 1996. In the year 2005 it was renamed Lanka Bangla Finance Limited and went public in the following year.

In Bangladesh, The financial market is extremely competitive. Today the number of NBFIs is thirty which is large for a country like ours. The competition is getting intense among the institutions with the passage of time. The competitive environment for NBFIs is even more complex, as they have to compete with banks, which have much lower cost of funds compared to even the most efficient NBFI. To have better response from the customers, better quality is highly necessary. The more efficient and prompt services NBFI provide, the more competitiveness they attain. In a nutshell customized and quality service is the core competitive advantage of an NBFI. Being an NBFI, Lanka Bangla Finance Limited also concentrate on that theme. Its Credit Risk Management Division comprises of most of the financing products including corporate financial services, retail financial services, SME financial services, stock broking etc. Therefore, because of the importance of CRM in a NBFI I have taken this topic to work on.

To construct this report, I gave an overview of the company. I included a brief discussion of overall activities to get a preliminary idea of the services of the company. Though I worked in the loan department of CRM division but I had diverse experience in working with other departments for example corporate financial department, retail financial department, SME financial department therefore I have added those in the report.

1.1 Problem Statement

In today's world, Credit risk officers skilled in evaluating the credit request of business firms rank among the most experienced and highest paid people in the financial services field along with investment bankers. Well, LBFL Credit Risk Department try their best in maintenance of credit and how to mitigate the risk associated with it. This report basically focuses on how Credit Risk Management of LBFL works through a practical example.

1.2 Objectives of the Study

Primary Objective:

To analyze the activities of Lanka Bangla Finance Limited (LBFL) with a focus on Credit Risk Management (CRM) division.

Secondary objectives:

The study was conducted to achieve the following objectives-

- To present an overview of Lanka Bangla Finance Limited.
- To know about the overall general financing products and services of LBFL.
- To show the loan products and loan sanctioning procedures of LBFL.
- To present the overall CRM practices of Lanka Bangla Finance Limited.
- To present some observations of CRM during internship period.
- To suggest remedial measurement for the improvement of the whole process of the Credit Risk Management System of LBFL

1.4 Methodology

Generally, it is one of the common practice in CRM to give necessary information to the interns so that they can enlighten themselves and in my case it is no exception.

Firstly, during the intern period, it has taken few weeks to understand the working environment of Lanka Bangla Finance Ltd but as far as my primary objective is concerned I tried to gather as much as information possible from the people I worked with in CRM division to provide a broad picture of the activities of LBFL.

Secondly, I had face to face conversations with the officers and clients to know about the products that LBFL offers and how clients are receiving it.

I had “Practical Deskwork” experience in LBFL through which I found out how to carry out responsibilities in a corporate environment.

I have gone through Product Program Guideline (PPG) and other documents which are only for the employees of LBFL to carry out my responsibilities in there.

At the end of my internship I have suggested some remedial measures to my honorable supervisor and other officers so that LBFL could improve more.

CHAPTER 4

PROJECT DESCRIPTION

(MAIN BODY)

I was very much curious about how a loan is sanctioned in banks or NBFIs. After I was successfully completed few weeks in MIS section, I was taken to the loan department and shared some works with the analysts there. Therefore, I was given chance to look after the whole loan sanction process. According to my learning from the analysts and Product Program Guideline (PPG) I am describing the general loan approval procedure below:

3.2 Loan Application and Approval Process at a glance:

- Client’s application
- Filling LBFL application form of loan
- Collecting CIB report from Bangladesh Bank
- Processing loan proposal (verification)
- Sanction letter
- Documentation
- Disbursement

3.2.1 Client’s application: At first applicant had to submit an application to the respective department for loan. She/he has to clearly specify the reason for loan. After receiving the application from the borrower respective officer RM (Relationship Manager) verifies all the information carefully. He also checks the account maintains by the borrower with Bank through bank statement of at least one year. If the official becomes satisfied then he gives LBFL form of Loan Facilities. Under CRM department at first file receive in MIS section. Though it is not my activities but it is important to know from where and how a file goes to CRM department or how analysts get files for processing. This I am showing some steps which is given below -

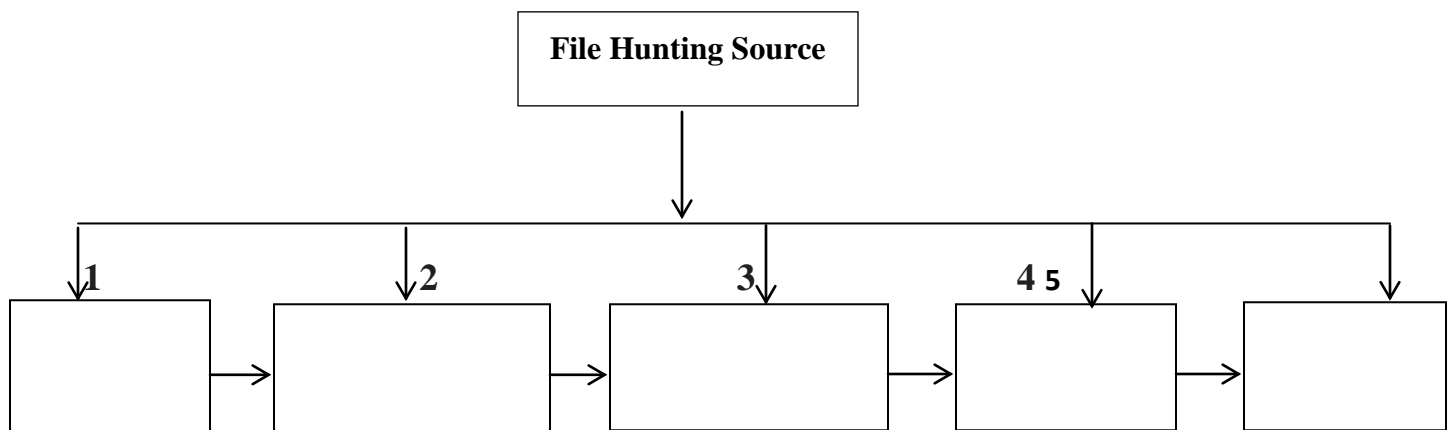


Figure 3: File Submitting Process in CRM Department

3.2.2 Filling LBFL application form of loan: Application form contains information of an applicant. It contains information like- Name of the concern with its factory location, Official address and Telephone number, Details of past and present business, business experience, length of the business, its achievement and failures, type of loan already they have already taken etc.

3.2.3 Collecting CIB report from Bangladesh Bank: After receiving the application, LBFL sends a letter to Bangladesh Bank for obtaining a report from there. This report is called CIB (Credit Information Bureau) report. LBFL generally seeks this report directly from Bangladesh Bank office for all kinds of Investment.

Steps for collecting CIB are as follows:

1. Each owner (proprietor/partner/director) must sign an Undertaking providing details of applicant personal and business details.
2. Undertaking forms are sent to CRM for the verification of information given in the undertaking form.

Based on the result of CRM report appraisal report is made, else the proposal gets rejected. The purpose of this report is to make analyst informed that whether the borrower has taken loan from any other Bank if yes then whether the party has any overdue amount or not.

3.2.4 Processing loan proposal: After receiving CIB report, CRM department prepare a proposal, which contains terms and conditions of Investment for approval of Credit Committee and Executive Committee. Documents those are necessary for sending. Proposal are Loan application, photograph of the borrower duly attested, personal information of borrower, CIB report, legal opinion, trade license, net worth calculation of business and individual, working capital assessment, financial statement, SME information and Credit Risk Grading (CRG).

Some Common Documents which are required to be in a proposal are:

- **Clear NID of applicant and ETIN:** Applicant NID must be clear. Applicant face has to be clear. If face is not clear then it will not be accepted. Then again have applicant have to submit a clear NID. Again analysts have to match Name of applicant with NID and application form. Whether applicants are written properly or not.

- **Recent Studio Photograph:** Applicant has to submit recent photo. It must be studio photo and it'll be Signed or attested by self.
- **Personal Guarantor NID and ETIN:** PG (Personal Guarantor) worked any organizations then he/she have to submit Electronic Tax Identification Number (ETIN).
- **TIN Certificate:** TIN simply specifies Tax Identification Number, Which reflects that each individual will have a significant number of Tax Repayment.
- **Call Report (If applicable):** Call report is short summary of an applicant. This call report is prepared by RM (Relationship Manager).
- **Visiting Card**
- **Sanction letter of all existing loans (If any)**
- **Personal Net Worth Statement:** Net worth = Asset–Liabilities. Net Worth reflects the amount after all liability is deducted from the overall assets the applicant has, if the net worth record is satisfactory then the chance of having loan is higher.

➤ **Credit Assessment Criteria**

For CRG (Credit Risk Grading) calculating: According to Lanka Bangla Product Program Guideline (PPG) income range and maximum allowable limit

Here DBR= Debt Burden Ratio and FOIR= Fixed Obligation to Income Ratio

(For Auto Loan)

BDT 30,000 to BDT 49,999 DBR/FOIR 40, BDT 50,000 to BDT 74,999 DBR/FOIR 45% BDT 75,000 to BDT 99,999 DBR/FOIR 50%, BDT 100,000 to BDT 149,999 DBR/FOIR 55% BDT 150,000 to BDT 299,999 DBR/FOIR 65%, BDT 300,000 to BDT 499,999 DBR/FOIR 70% BDT 500,000 and above DBR/FOIR 75%

(For Personal Loan)

Income range-BDT 25,000 to BDT 39,999=FOIR 40%, BDT 40,000 to BDT 59,999=FOIR 45%, BDT60, 000 to BDT149, 999=FOIR 50%BDT 150,000 to BDT250, 000=FOIR55%, BDT250, 000 000 above=FOIR 60 %

For personal Loan (Eligibility Criteria)

Nationality: Bangladeshi by Citizenship or by birth.

Age: 25 – 60 years.

Minimum Income: BDT 30,000 per month.

➤ **Additional Documents Required For (Auto and Personal Loan)**

Salaried Person: Service length of such person should be at least 2 years (Auto Loan), more than 2 years for personal loan.

- Salary Certificate (in the form of Letter of Introduction).
- Pay Slip/Debit Voucher (If applicant receive salary by cash)

Self Employed Professional: This segment consists of self-employed professionals (e.g. doctors, engineers, professional accountants, teachers, consultants etc.) having at least 3 years professional experience and maintains transaction with scheduled banks for at least 12 months. Professional experience and Bank Transaction requirement may be relaxed in case of high profile clients with documentary evidence. Consideration allowed subject to proper justification and positive verification report from Contact Point Verification (CPV) Agent.

Professional Certificate(s)

- Proof of Professional Association Membership (if any)

Common documents for all Businessman and proprietor: This segment consists of business persons having at least 3 years' experience in the same line of business and maintains transaction with scheduled banks for at least 12 months.

- Trade License for last 3 years.
- Certificate of Incorporation (if applicable)
- TIN Certificate Of Business
- Verified Bank statement Of Business
- Liability Statement from main banker

- Documents regarding ownership or rental deed of business

Partnership:

- Partnership Deed (for partnership concern)
- Utility Bill Copy (Electricity, Gas, WASA)

Limited Company:

- Memorandum and Article of Association (if applicable)
- Latest Form XII and Schedule X (if applicable)
- Valid Credit Rating Report

Land Lord: This segment consists of land lords having a stable source of income from rented premises.

- Title deed
- Mutation copy
- Utility Bill
- Khajna Report
- Partition deed for joint property (if applicable)

Approval Procedure of loan: Initially, The proposal is submitted to Management Committee, comprising of Senior Officials of different departments of the company. After review of the Management Committee, the proposal is forwarded to the Managing Director.

Final Approval: For Auto Loan Proposal Up to 5 Million

Head of Retail Credit (HORC) Approves or reject the proposal. Name of the HORC of CRM department is Arif Hasan.

Final Approval: For Auto Loan Proposal Exceeding Up to 5 Million

Chief Credit Officer (CCO) approves/rejects the proposal. Name of the CCO of CRM department is Kazi Masum Rashed.

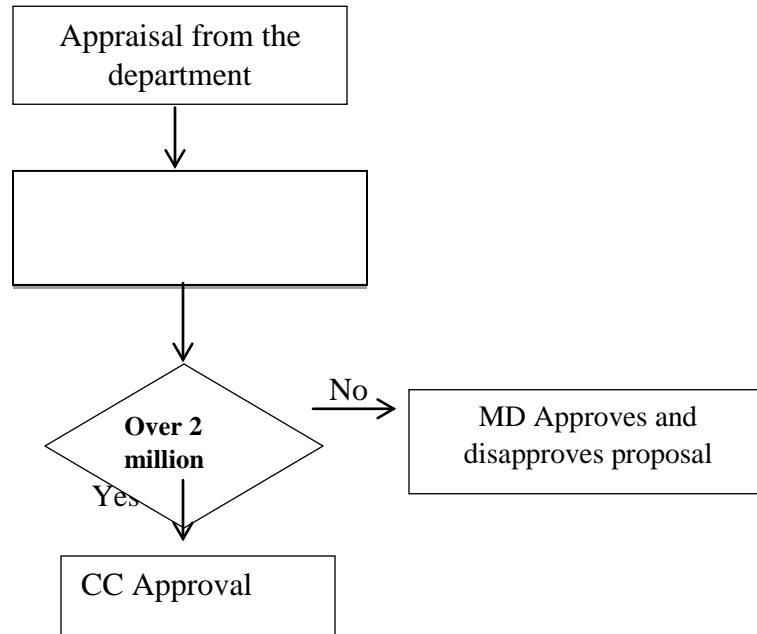


Figure 4: Personal Loan approval procedure

Any Exception of the PPG may be accepted with the approval of Managing Director/CCO and Head Retail Financial Services Jointly for the credit issue and Head of Operations and Head of Retail Financial Services for operational issues.

Deferral: Any deferral to be approved by Head of Retail Financial Services/ Head of Auto Loan

3.2.5 Sanction Letter: After getting the approval from the analyst the department issues sanction letter to the borrower. A sanction letter contains- Name of borrower, Facility allowed, Purpose, Period of the Investment and mode of adjustment, Security Rate of interest (For 100% cash covered loan/lease, Minimum 1.50% spread to be maintained above the TDR Interest rate) and Other terms and condition

3.2.6 Documentation: If the borrower accepts the sanction letter, the Documentation starts. Documentation is a written statement of fact evidencing certain transactions covering the legal aspects duly signed by the authorized persons having the legal status. The most common documents used by the LBFL for sanctioning different kinds of Investment are Joint Promissory Note, Letter of Arrangement, Letter of Disbursement, Letter of Installment, Letter of Continuity, Trust

Receipt, Counter Guarantee, Stock Report, Letter of Lien, Status Report, Letter of Hypothecation, Letter of Guarantee and Documents Relating to Mortgage.

3.2.7 Disbursement: Finally disburses the loan after sanction and completion of all formalities. The officer writes cheque and provides it to the borrower. For this borrower has to open an account thorough which he/she can withdraw the money.

3.3 My responsibilities during evaluation process: As an intern in the Lanka Bangla Finance I was involved in the following activities in the loan evaluation process.

- **Screening/ checking daily Auto and Personal loan files (Documentary checking):**For loan I checked all the common documents with the list to ensure identification and to sure that all documents are original and accurate I checked all the documents how analysts have been checked because I was working under an analyst of credit division. It is same as the checking documents of credit cards files for example, I had to check KYC Profile form and Client Acknowledgement Form for both loan and credit card files.
- **Calculating CRG (Credit Risk Grading):** This is a score card of different criteria, and debt burden ratio is calculated in this sector. I calculate this to ensure that customers are not over burdened with liability.

- **Calculating DBR (Debt Burden Ratio)**

For Salaried person: Such as Applicant Income is 85000 (Take home Salary), which I got from bank statement if applicant get salary through Bank Account or Pay slip. If he/she has any loan installment (Existing) and loan installment proposed (from call report) will be added to calculate DBR. For DBR calculating, Credit card facility will be applicable for Personal loan not for Auto loan.

$$\text{DBR} = \frac{\text{Existing + proposed Installment}}{\text{Income}} = \frac{22498}{85000} = 26.47\%$$

- **Checking Call Report:** I checked that call report is given or not. For Auto loan, sometimes call report is not necessary. Based on this Call report DBR is created afterward.
- **Phone verification:** After completing documentary checking manually I verified applicant's information by phone. I asked applicants their address, mother's name, father's name, designation.

CHAPTER 5
OBSERVATION
AND
RECOMMENDATION

Few things observed in CRM Department:

- Sometime the employees of the Department were not able to give their valuable time to discuss about internal activities.
- I did work there as an intern, but my work was not less than any other full time employees. So papers, files, and documents I had to deal with every day. Therefore, without a fix desk and internet access, it was very difficult to maintain.
- They have conducted three to four meetings since I have joined on how to increase productivity. But every time they have a meeting every one falls behind their work leading to unproductively. I have observed that even an hour delay in the work of CRM adversely affects the entire day's work.
- Every credit card application has a serial number which needs to be put into CMS before its status can be checked or updated. It is a bit arduous job to input the serial number when working with large number of files. Sometimes due to pace of work, some employee might input wrong number and also update the status of the wrong credit card application file.

Recommendations:

LBFL is a Non-Bank Financial Institution so they cannot do their transactions through cash. It has to complete its actions/transactions through different Banks and this give rise to many conflicts. After having a professional experience with LBFL, I have included few suggestions–

- > Maintaining an electronic register and recording all the sanction detail in a shared Loan MIS when the event takes place rather than waiting for the month to end.
- > Using bar codes instead of serial numbers to keep record of the files.
- > Attach interns in those activities where an intern can actually learn and apply his/her academic knowledge.

CHAPTER 6

ACADEMIC/PRACTICAL

LEARNINGS

There are two kinds of knowledge a person can acquire – one from text books and the other from practical experiences. And there always been a gap in between the two. It was same for me as well. During my internship I found some similarity and dissimilarity among my theoretical knowledge and practical experience.

Relevance:

- The office environment was peaceful and employees behave in a discipline manner which I found relevant with my educational knowledge I have gained in Organizational Behavior course.
- The presence of good team bonding in CRM division of Lanka Bangla helps in sharing knowledge resulting in synergy and efficiency, another concept I learnt in my class on team building.
- I gain so many experiences from here which is relevant to the job world. It will be helpful for my future job. This practical work is necessary for the development and preparation of a person in the job world.

Mismatch:

As expected, I also found some mismatch between my educational knowledge and organizational experience.

- The calculations are more software based and the trends in data are easily organized unlike our course projects where we had to do everything manually and somehow the analysis portion gets compromised due to that.
- While going through the files in LBFL, I noticed how theories are applied in real life situations whereas in classes we were limited to knowing the theories only.
- During our classes we were more concerned about class time than study but in office environment people are more concerned about work than time.

CHAPTER 7

ORGANIZATIONAL REFLECTION

Organizational Culture: Lanka Bangla Finance Ltd. is one of the most disciplined Non-Bank Financial Institutions with a distinctive corporate culture. The company believes in shared meaning, shared understanding and shared sense making. The people of the company can see and understand events, activities and situation in a distinctive way.

Their etiquette, character and manners are such that individually they suit the purpose of the company and the needs of the customers who are of notable significance to them. The people in the FI see themselves as a tight knit team/family that believes in working together for growth. The corporate culture they belong to has not been imposed; it has rather been achieved through their organizational attachment.

My Days in LBFL: I started my internship program in Lanka Bangla Finance Ltd, Head office on 18th April, 2016. In LBFL, I was assigned to work under Credit Risk Management Division. It had a remarkable working atmosphere. Though my task over there changed with time, I was mostly incorporated with Retail and SME Credit.

The head of the two credit departments were very generous towards me. There were many days, when Arif bhai (Head of Retail Credit) sat with us and shared his view. The Conversation was sometimes related to work and rest of the time he shared his life stories. Daial bhai (Head of SME Credit) was a very disciplined and kind person. He was always the first person to enter the office. He used to read newspaper and once his colleagues arrived, he used to have discussions on the topic he just read from the paper. In a way, he used to give updates to each one of us. I enjoyed those discussion every morning.

Usually we interns do the supporting tasks. And later when time comes, we are allowed to study the Loan files. Loan files deal with large sum of money and requires thorough verification and processing. Analysts go through special training and have enough experiences whereas interns being fresh and new to everything are more prone to make mistakes. So Interns more often get to study Personal Loan files and some Auto Loan files. This internship program gave me practical and useful experience along with knowledge regarding Loans of different types. My work was not fixed at all.

Conclusion:

In the end, Non-Bank Financial Institutions are vital elements for sound and stable financial system. It can be said that Lanka Bangla Finance Limited has been a very successful Financial Institution. Their slogan “GROWING TOGETHER” is reflection of their success. Its success is a result of capable leaders, right business decisions, profitable business functions, cost-effective business departments, skilled manpower and many other things. Financial institutions provide many types of financial services to their clients based on the demand. This CRM division of LBFL is always committed to serve the institution. Their major part of income is coming from this department (credit section). A financial institution should follow a guarded policy. More it will increase its internal fund, more it will be able to increase its profit. However, by providing additional and alternative financial services, NBFIs have already gained considerable popularity both in developed and developing countries. In one hand these institutions help to facilitate long-term investment and financing, which is often a challenge to the banking sector and on the other; the growth of NBFIs widens the range of products available for individuals and institutions with resources to invest. Another important role which NBFIs play in an economy is to act as a buffer, especially in the moments of economic distress and contributes to the overall goal of financial stability in the economy.

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